UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **August 12, 2021 (July 21, 2021)**

MarketWise, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**001-39405**	**87-1767914**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

1125 N. Charles Street
Baltimore, Maryland 21201

(Address of principal executive offices, including zip code)

(888) 261-2693

(Registrant’s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0001 par value per share	**MKTW**	**The Nasdaq Stock Market LLC**
Warrants to purchase Class A common stock	**MKTWW**	**The Nasdaq Stock Market LLC**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

INTRODUCTORY NOTE

This Current Report on Form 8-K/A ("Amendment No. 1") amends the Current Report on Form 8-K of MarketWise, Inc., a Delaware corporation (the "Company"), filed on July 28, 2021 (the "Original Report"), in which the Company reported, among other events, the completion of the Transactions (as defined in the Original Report).

The Company is filing this Amendment No. 1 in order to include

(a) the unaudited condensed consolidated financial statements of MarketWise, LLC, a Delaware limited liability company, as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020 as Exhibit 99.1;

(b) the Management's Discussion and Analysis of Financial Condition and Results of Operations of MarketWise, LLC for the three and six months ended June 30, 2021 and 2020 as Exhibit 99.2; and

(c) the unaudited pro forma condensed combined financial information of Ascendant Digital Acquisition Corp. and MarketWise, LLC as of and for the six months ended June 30, 2021 as Exhibit 99.3.

This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries subsequent to the filing date of the Original Report. The Original Report remains unchanged.

Item 2.02. Results of Operations and Financial Condition.

On August 12, 2021, the Company issued a press release announcing the financial results for MarketWise, LLC for the second quarter ended June 30, 2021. A copy of the press release, which is incorporated by reference herein, is attached hereto as Exhibit 99.4. The foregoing information (including Exhibit 99.4) is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The unaudited condensed consolidated financial statements of MarketWise, LLC as of June 30, 2021 and for the three and six months ended June, 30, 2021 and 2020, and the related notes thereto, are attached as Exhibit 99.1 hereto and are incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of the MarketWise, Inc. as of and for the six months ended June 30, 2021 is set forth in Exhibit 99.3 hereto and is incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
99.1	Unaudited condensed consolidated financial statements of MarketWise, LLC as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of MarketWise, LLC for the three and six months ended June 30, 2021 and 2020.
99.3	Unaudited pro forma condensed combined financial information of the MarketWise, Inc. as of and for the six months ended June 30, 2021.
99.4	MarketWise, Inc. press release, dated August 12, 2021.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MARKETWISE, INC.

Date: August 12, 2021	By:	/s/ Dale Lynch
	Name:	Dale Lynch
	Title:	Chief Financial Officer

Exhibit 99.1

MARKETWISE, LLC

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except unit and per unit data)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 241,532	$ 114,422
Accounts receivable	8,965	12,398
Prepaid expenses	7,911	8,530
Related party receivables	775	874
Related party notes receivable, current	292	—
Restricted cash	500	505
Deferred contract acquisition costs	68,548	42,019
Other current assets	2,087	1,889
Total current assets	330,610	180,637
Property and equipment, net	1,300	1,417
Operating lease right-of-use assets	11,826	12,337
Intangible assets, net	9,496	5,278
Goodwill	23,338	18,101
Deferred contract acquisition costs, noncurrent	113,029	65,217
Related party notes receivable, noncurrent	861	1,148
Other assets	715	678
Total assets	$ 491,175	$ 284,813
Liabilities and members' deficit		
Current liabilities:		
Trade and other payables	$ 4,718	$ 11,969
Related party payables, net	1,231	2,515
Accrued expenses	65,258	32,134
Deferred revenue and other contract liabilities	324,675	278,267
Derivative liabilities	662	—
Operating lease liabilities	1,223	1,077
Other current liabilities	24,805	19,576
Total current liabilities	422,572	345,538
Class B Units - related party	1,235,648	593,235
Deferred revenue and other contract liabilities, noncurrent	382,797	254,481
Derivative liabilities, noncurrent	1,955	4,343
Operating lease liabilities, noncurrent	7,512	7,826
Total liabilities	2,050,484	1,205,423
Commitments and Contingencies	—	—
Members' deficit:		
Class A members' units, 528,519 and 547,466 units issued and outstanding at June 30, 2021 and December 31, 2020, respectively	(1,552,174)	(914,728)
Accumulated other comprehensive income (loss)	(118)	(17)
Total members' deficit	(1,552,292)	(914,745)
Non-controlling interest	(7,017)	(5,865)
Total members' deficit attributable to MarketWise	(1,559,309)	(920,610)
Total liabilities, non-controlling interest, and members' deficit	$ 491,175	$ 284,813

The accompanying notes are an integral part of these consolidated financial statements.

MARKETWISE, LLC

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except unit and per unit data)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net revenue	$ 141,884	$ 81,905	$ 261,225	$ 157,739
Related party revenue	246	890	619	1,438
Total net revenue	142,130	82,795	261,844	159,177
Operating expenses:				
Cost of revenue (1) (2)	26,826	27,477	159,638	42,158
Sales and marketing (1) (2)	56,926	49,241	148,711	89,573
General and administrative (1) (2)	64,661	84,498	572,090	120,951
Research and development (2)	1,927	1,190	3,705	2,217
Depreciation and amortization	696	662	1,447	1,273
Related party expense	27	(17)	47	32
Total operating expenses	151,063	163,051	885,638	256,204
Loss from operations	(8,933)	(80,256)	(623,794)	(97,027)
Other income (expense), net	530	(1,067)	303	(863)
Interest income, net	7	367	12	472
Net loss	(8,396)	(80,956)	(623,479)	(97,418)
Net loss attributable to non-controlling interests	(501)	(911)	(1,131)	(872)
Net loss attributable to MarketWise	$ (7,895)	$ (80,045)	$ (622,348)	$ (96,546)
Net loss per unit – basic and diluted:				
Class A units - distributed earnings per unit	$ 2.23	$ 15.30	$ 28.57	$ 120.57
Class A units - undistributed loss per unit	(17.17)	(161.51)	(1,206.10)	(296.56)
Class A units - net loss per unit	$ (14.94)	$ (146.21)	$ (1,177.53)	$ (175.99)
Class B units - distributed earnings per unit	$ 0.87	$ 11.59	$ 11.60	$ 76.88
Class B units - undistributed (loss) earnings per unit	—	—	—	—
Class B units - net income per unit	$ 0.87	$ 11.59	$ 11.60	$ 76.88

(1) Included within cost of revenue, sales and marketing, and general and administrative expenses are stock-based compensation expenses as follows (see Note 9):

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Vested Class B units and change in fair value of Class B liability awards	$ 46,989	$ 72,870	$ 642,413	$ 61,054
Profits distributions to Class B unitholders	456	5,757	6,107	38,070
Total stock-based compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

(2) Cost of revenue, sales and marketing, general and administrative, and research and development expenses are exclusive of depreciation and amortization shown as a separate line item

The accompanying notes are an integral part of these consolidated financial statements.

MARKETWISE, LLC

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (8,396)	$ (80,956)	$ (623,479)	$ (97,418)
Other comprehensive (loss) income:				
Cumulative translation adjustment	(84)	103	(101)	27
Total comprehensive loss	$ (8,480)	$ (80,853)	$ (623,580)	$ (97,391)

The accompanying notes are an integral part of these consolidated financial statements.

MARKETWISE, LLC

Condensed Consolidated Statement of Members' Deficit (Unaudited)

(In thousands, except unit data)

	Class A Members' units		Accumulated Other Comprehensive Income (Loss)	Total Members' Deficit	Noncontrolling Interest	Total Members' Deficit Attributable to MarketWise
	Shares	Amount				
Balance at January 1, 2020	605,352	$ (262,293)	$ (3)	$ (262,296)	$ (5,768)	$ (268,064)
Class A units transferred to Class B	(57,886)	—	—	—	—	—
Foreign currency translation adjustments	—	—	27	27	—	27
Acquisition of noncontrolling interest - TradeSmith	—	(12,295)	—	(12,295)	3,131	(9,164)
Distributions	—	(66,145)	—	(66,145)	(423)	(66,568)
Net loss	—	(96,546)	—	(96,546)	(872)	(97,418)
Balance at June 30, 2020	547,466	$ (437,279)	$ 24	$ (437,255)	$ (3,932)	$ (441,187)
Balance at January 1, 2021	547,466	$ (914,728)	$ (17)	$ (914,745)	$ (5,865)	$ (920,610)
Class A units transferred to Class B	(18,947)	—	—	—	—	—
Acquisition of Chaikin	—	—	—	—	810	810
Foreign currency translation adjustments	—	—	(101)	(101)	—	(101)
Distributions	—	(15,098)	—	(15,098)	(831)	(15,929)
Net loss	—	(622,348)	—	(622,348)	(1,131)	(623,479)
Balance at June 30, 2021	528,519	$ (1,552,174)	$ (118)	$ (1,552,292)	$ (7,017)	$ (1,559,309)

The accompanying notes are an integral part of these consolidated financial statements.

MARKETWISE, LLC

Condensed Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (623,479)	$ (97,418)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,447	1,273
Stock-based compensation	43,880	11,258
Change in fair value of derivative liabilities – Class B Units	598,533	49,796
Change in fair value of derivative liabilities – other	(1,726)	997
Unrealized losses on foreign currency	(79)	29
Noncash lease expense	908	1,481
Gain on sale of cryptocurrencies	(105)	—
Changes in operating assets and liabilities:		
Accounts receivable	3,433	(614)
Related party receivables and payables, net	(1,185)	(5,151)
Prepaid expenses	619	(595)
Other current assets and other assets	(83)	(384)
Cryptocurrency intangible assets	109	31
Deferred contract acquisition costs	(74,341)	(22,091)
Trade and other payables	(7,172)	3,403
Accrued expenses	32,946	654
Deferred revenue	172,849	78,266
Operating lease liabilities	(565)	(1,333)
Other current and long-term liabilities	5,229	5,597
Net cash provided by operating activities	151,218	25,199
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(7,139)	—
Acquisition of non-controlling interests, including transaction costs	—	(9,164)
Purchases of property and equipment	(62)	(214)
Purchases of intangible assets	(857)	—
Capitalized software development costs	(20)	—
Net cash used in investing activities	(8,078)	(9,378)
Cash flows from financing activities:		
Principal payments on long-term debt – related party	—	(5,390)
Issuance of related party notes receivable	(292)	(1,437)
Proceeds from related party notes receivable	287	5,446
Distributions to members	(15,098)	(66,145)
Distributions to noncontrolling interests	(831)	(423)
Net cash used in financing activities	(15,934)	(67,949)
Effect of exchange rate changes on cash	(101)	27
Net increase in cash, cash equivalents and restricted cash	127,105	(52,101)
Cash, cash equivalents and restricted cash — beginning of period	114,927	172,084
Cash, cash equivalents and restricted cash — end of period	$ 242,032	$ 119,983

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Description of Business

MarketWise, LLC ("MarketWise," the "Company," "we," "us," or "our"; formerly Beacon Street Group, LLC) was organized in January 2013 (while our original operating brand was founded in 1999) and provides independent investment research for investors around the world. We believe we are a leading content and technology multi-brand platform for self-directed investors. We offer a comprehensive portfolio of high-quality, independent investment research, as well as several software and analytical tools, on a subscription basis.

While our headquarters are in Baltimore, Maryland, we operate multiple subsidiaries in the United States. We also have operations in China and Singapore.

The Company is a limited liability company and is treated as a pass-through entity for tax purposes. As a result, the members are responsible for all tax payments and the Company does not pay taxes on behalf of its members.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of MarketWise and its wholly owned subsidiaries (collectively, the "Company" "we," "us," or "our"). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying statements of operations include expenses for certain functions historically performed by a related party, including general corporate services, such as legal, accounting, treasury, information technology, human resources and administration. These expenses are based primarily on direct usage when identifiable, direct capital expenditures or other relevant allocations during the respective periods. We believe the assumptions underlying the accompanying consolidated financial statements, including the assumptions regarding these expenses from this related party, are reasonable. Actual results may differ from these expenses, assumptions and estimates. The amounts recorded in the accompanying consolidated financial statements are not necessarily indicative of the actual amount of such indirect expenses that would have been recorded had we been a separate independent entity.

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements and the related footnote disclosures have been prepared by the Company in accordance with GAAP for interim financial reporting and as required by Rule 10-01 of Regulation S-X. Accordingly, the unaudited consolidated financial statements may not include all of the information and notes required by GAAP for audited financial statements. The year-end December 31, 2020 consolidated balance sheet data included herein was derived from audited financial statements but does not include all disclosures required by GAAP for complete financial statements. In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of items of a normal and recurring nature, necessary to present fairly the Company's financial position as of June 30, 2021, the results of operations, comprehensive income (loss), members' deficit and cash flows for the three and six months ended June 30, 2021 and 2020. The results of operations for the three and six months ended June 30, 2021 and 2020 are not necessarily indicative of the results to be expected for the full year. The information contained herein should be read in conjunction with the audited financial statements for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission (the "SEC"). The Company's management considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of issuance of these financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made in the accompanying financial statements include, but are not limited to, the fair value of common units, derivatives, valuation of assets acquired and liabilities assumed in business combinations, useful lives of intangible assets with definite lives, benefit period of deferred contract acquisition costs, determination of standalone selling prices, estimated life of lifetime customers, recoverability of goodwill and long-lived assets, the incremental borrowing rates to calculate lease liabilities and right-of-use ("ROU") assets and certain accruals. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors and adjust those estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates.

Segment Information

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by our chief operating decision-maker ("CODM") in deciding how to allocate resources and assess performance. The Company's Chief Executive Officer serves as the CODM.

Based on the financial information presented to and reviewed by our CODM in assessing our performance and for the purposes of allocating resources, we have determined our operating subsidiaries represent individual operating segments with similar economic characteristics that meet the criteria for aggregation into a single reporting segment for financial statement purposes. Accordingly, we have a single reportable segment.

Long-lived assets outside the United States were immaterial as of June 30, 2021 and December 31, 2020.

Derivative Financial Instruments

From time to time, we utilize instruments which may contain embedded derivative instruments as part of our overall strategy to compensate and retain key employees and independent contractors (see Derivative Financial Instruments note below for additional information). Our derivative instruments are recorded at fair value on the consolidated balance sheets. Our derivative instruments have not been designated as hedges; therefore, both realized and unrealized gains and losses are recognized in earnings. For the purposes of cash flow presentation, realized and unrealized gains or losses are included within cash flows from operating activities. Upfront cash payments received upon the issuance of derivative instruments are included within cash flows from financing activities within the consolidated statements of cash flows.

Stock-Based Compensation

As part of our compensation and retention strategy, we grant incentive compensation units ("Class B Units") to certain key employees, which are profit interests for United States federal income tax purposes. The Class B Units are accounted for as a substantive class of equity and allow the recipient to realize value only to the extent that the value of the award appreciates.

The Class B Units contain service-based vesting conditions and have different vesting terms depending upon the employee which range from vesting immediately to eight years; vesting is accelerated upon our initial public offering. Compensation cost is recognized on a straight-line basis over the requisite service period until vesting for the entire award, but will at least equal the number of vested units determined by the underlying vesting schedule. Forfeitures are accounted for in the period in which they occur.

The Class B Units are subject to a put and call option whereby we may elect to redeem or be required to redeem these units at a value determined by a predefined formula based on a multiplier of the Company's net income as defined by management. Employees may not exercise the put option until 25 months have elapsed from the issuance date. Since the redemption price is not representative of fair value, the employees are not considered to be subject to the risks and rewards of share ownership, and the Class B Units are classified as liabilities in the accompanying consolidated balance sheet. The liability for Class B units is remeasured to fair value at the end of each reporting period.

(Dollar amounts in thousands, except unit and per unit data)

Since Class B Units are classified as liabilities, all cash distributions made to the unitholders of the Class B Units pursuant to our operating agreement are considered to be stock-based compensation expenses.

Stock-based compensation expenses are included in cost of revenue, sales and marketing, and general and administrative expenses in a manner consistent with the employee’s salary and benefits in the consolidated statements of operations.

As more fully described in Note 14, *Subsequent Events*, the Company completed its SPAC transaction in July 2021, and all Class B Units fully vested as of the transaction date, and the put and call option ceased to exist under the terms of the existing operating agreement. As such, the Class B Units liability was reclassified to equity and is no longer a liability award and will not be deemed to be stock-based compensation expense after the transaction date. See also Note 9, *Stock-Based Compensation*.

Fair Value Measurement

Assets and liabilities recorded at fair value on a recurring basis in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1—Observable inputs such as unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active;

Level 3— Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amount of our financial instruments, including accounts receivable, trade and other payables, accrued expenses and related party receivables and payables, approximate their respective fair values because of their short maturities. The fair value of stock-based compensation liabilities for Class B Units and derivatives liabilities associated with our deferred compensation arrangements were determined using unobservable Level 3 inputs. We have not elected the fair value option for any financial assets and liabilities for which such an election would have been permitted.

3. Revenue Recognition

Disaggregation of revenues

The following table depicts the disaggregation of revenue according to customer type and is consistent with how we evaluate our financial performance. We believe this depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	Three Months Ended June 30, 2021				
	Subscriptions	Advertising	Revenue Share (Related Party)	Revenue Share (Third-party)	Total
Timing of transfer:					
Transferred over time	$ 140,884	$ —	$ —	$ —	$ 140,884
Transferred at a point in time	—	635	246	365	1,246
Total	$ 140,884	$ 635	$ 246	$ 365	$ 142,130

(Dollar amounts in thousands, except unit and per unit data)

	Three Months Ended June 30, 2020				
	Subscriptions	Advertising	Revenue Share (Related Party)	Revenue Share (Third-party)	Total
Timing of transfer:					
Transferred over time	$ 80,619	$ —	$ —	$ —	$ 80,619
Transferred at a point in time	—	662	890	624	2,176
Total	$ 80,619	$ 662	$ 890	$ 624	$ 82,795

	Six Months Ended June 30, 2021				
	Subscriptions	Advertising	Revenue Share (Related Party)	Revenue Share (Third-party)	Total
Timing of transfer:					
Transferred over time	$ 258,531	$ —	$ —	$ —	$ 258,531
Transferred at a point in time	—	1,545	619	1,149	3,313
Total	$ 258,531	$ 1,545	$ 619	$ 1,149	$ 261,844

	Six Months Ended June 30, 2020				
	Subscriptions	Advertising	Revenue Share (Related Party)	Revenue Share (Third-party)	Total
Timing of transfer:					
Transferred over time	$ 155,922	$ —	$ —	$ —	$ 155,922
Transferred at a point in time	—	1,006	1,438	811	3,255
Total	$ 155,922	$ 1,006	$ 1,438	$ 811	$ 159,177

Revenue recognition by subscription type was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Lifetime subscriptions	$ 49,867	$ 33,035	$ 90,031	$ 62,088
Term subscriptions	91,017	47,584	168,500	93,834
Non-subscription revenue	1,246	2,176	3,313	3,255
Total	$ 142,130	$ 82,795	$ 261,844	$ 159,177

Revenue for the Lifetime and Term subscription types are determined based on the terms of the subscription agreements. Non-subscription revenue consists of revenue from advertising and other revenue.

Net revenue by principal geographic areas was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
United States	$ 141,599	$ 82,163	$ 260,873	$ 157,773
International	531	632	971	1,404
Total	$ 142,130	$ 82,795	$ 261,844	$ 159,177

Revenue by location is determined by the billing entity for the customer.

Contract Balances

The timing of revenue recognition, billings, cash collections and refunds affects the recognition of accounts receivable, contract assets and deferred revenue. Our current deferred revenue balance in the consolidated balance sheets includes an obligation for refunds for contracts where the provision for refund has not lapsed. Accounts receivable, deferred revenue and obligation for refunds are as follows:

(Dollar amounts in thousands, except unit and per unit data)

	As of	
	June 30, 2021	December 31, 2020
Contract balances		
Accounts receivable	$ 8,965	$ 12,398
Obligations for refunds	4,781	3,448
Deferred revenue – current	319,894	274,819
Deferred revenue – non-current	382,797	254,481

We recognized $81,840 and $48,907 of revenue during the three months ended June 30, 2021 and 2020, and $176,678 and $112,978 during the six months ended June 30, 2021 and 2020, respectively, that was included within the beginning contract liability balance of the respective periods. The Company has collected all amounts included in deferred revenue other than $8,965 and $12,398 as of June 30, 2021 and December 31, 2020, respectively, related to the timing of cash settlement with credit card processors.

Assets Recognized from Costs to Obtain a Contract with a Customer

The following table presents the opening and closing balances of our capitalized costs associated with contracts with customers:

Balance at January 1, 2021	$ 107,236
Sales commissions – additions	43,770
Revenue share fees – additions	62,491
Amortization of capitalized costs	(31,920)
Balance at June 30, 2021	$ 181,577

We did not recognize any impairment on capitalized costs associated with contracts with customers for the three and six months ended June 30, 2021 and 2020.

Remaining Performance Obligations

As of June 30, 2021, the Company had $707,472 of remaining performance obligations presented as deferred revenue in the consolidated balance sheets. We expect to recognize approximately 46% of that amount as revenues over the next twelve months, with the remainder recognized thereafter.

4. Acquisitions

Chaikin

On January 21, 2021, we acquired 90% ownership of Chaikin Holdings LLC ("Chaikin") a provider of analytical tools and software for investors, for cash of $7,139, net of cash acquired. We acquired Chaikin to expand our product offerings and our customer base. The Chaikin acquisition was accounted for using the acquisition method of accounting for business combinations. The purchase price allocation is preliminary pending completion of valuations of certain acquired assets and liabilities. The following table summarizes the fair value of assets acquired and liabilities assumed as of the acquisition date:

(Dollar amounts in thousands, except unit and per unit data)

Cash	$	151
Other current assets		152
Customer relationships		3,664
Tradenames		657
Software		247
Goodwill		5,237
Other noncurrent assets		443
Total assets acquired		10,551
Liabilities assumed		(2,451)
Net assets acquired	$	8,100
Cash consideration	$	7,290
Non-controlling interest		810
Total consideration	$	8,100

The excess purchase consideration over the fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill arising from the acquisition is largely attributable to synergies which we expect to achieve from cross-marketing and providing complementary products to our existing and acquired customers, and is expected to be fully deductible for tax purposes. The acquired intangible assets of Chaikin are amortized over their estimated useful lives. Accordingly, the trade name will be amortized over 8.5 years and customer relationships will be amortized over 6 years. Amortization for the acquired intangible assets was $206 and $362 for the three and six months ended June 30, 2021, respectively.

TradeSmith

On January 5, 2020, we acquired the noncontrolling interest of 25% in an affiliate, TradeSmith, to obtain 100% ownership for $9,164, including transaction costs. We incurred transaction costs of $164 during the three months ended March 31, 2020 and elected to record these costs as a reduction in equity.

5. Goodwill and Intangible Assets, Net

Goodwill

The changes in the carrying amounts of goodwill are as follows:

Balance at January 1, 2021	$	18,101
Acquisition of Chaikin		5,237
Balance at June 30, 2021	$	23,338

(Dollar amounts in thousands, except unit and per unit data)

Intangible assets, net

Intangible assets, net consisted of the following as of the dates indicated:

	June 30, 2021			
	Cost	Accumulated Amortization	Net Book Value	Weighted-Average Remaining Useful Life (in years)
Finite-lived intangible assets:				
Customer relationships	$ 12,369	$ (7,491)	$ 4,878	4.8
Tradenames	3,578	(1,637)	$ 1,941	5.8
Capitalized software development costs	2,762	(1,137)	1,625	3.4
Finite-lived intangible assets, net	18,709	(10,265)	8,444	
Indefinite-lived intangible assets:				
Cryptocurrencies	—	—	—	
Internet domain names	1,052	—	1,052	
Indefinite-lived intangible assets, net	1,052	—	1,052	
Intangible assets, net	$ 19,761	$ (10,265)	$ 9,496	

	December 31, 2020			
	Cost	Accumulated Amortization	Net Book Value	Weighted-Average Remaining Useful Life (in years)
Finite-lived intangible assets:				
Customer relationships	$ 8,705	$ (6,675)	$ 2,030	2.7
Tradenames	2,921	(1,433)	1,488	4.9
Capitalized software development costs	2,495	(934)	1,561	3.8
Finite-lived intangible assets, net	14,121	(9,042)	5,079	
Indefinite-lived intangible assets:				
Cryptocurrencies	4	—	4	
Internet domain names	195	—	195	
Indefinite-lived intangible assets, net	199	—	199	
Intangible assets, net	$ 14,320	$ (9,042)	$ 5,278	

We recorded amortization expense related to finite-lived intangible assets of $582 and $524 for the three months ended June 30, 2021 and 2020, and $1,223 and $1,046 for the six months ended June 30, 2021 and 2020, respectively, within depreciation and amortization in the accompanying consolidated statement of operations. These amounts include amortization of capitalized software development costs of $102 and $104 for the three months ended June 30, 2021 and 2020, and $203 and $207 for the six months ended June 30, 2021 and 2020, respectively.

We recorded additions to capitalized software development costs of $267 for the six months ended June 30, 2021. This amount includes acquired software of $247.

(Dollar amounts in thousands, except unit and per unit data)

As of June 30, 2021, the total expected future amortization expense for finite-lived intangible assets is as follows:

Remainder of 2021	$ 1,026
2022	2,090
2023	1,926
2024	1,436
2025	1,005
Thereafter	961
Finite-lived intangible assets, net	$ 8,444

6. Fair Value Measurements

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as of the dates indicated:

	June 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Aggregate Fair Value**
Assets:				
Money market funds	$ 101,503	$ —	$ —	$ 101,503
Total assets	101,503	—	—	101,503
Liabilities:				
Derivative liabilities, current	—	—	662	662
Derivative liabilities, noncurrent	—	—	1,955	1,955
Class B Units - related party	—	—	1,235,648	1,235,648
Total liabilities	$ —	$ —	$ 1,238,265	$ 1,238,265

	December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Aggregate Fair Value**
Assets:				
Money market funds	$ 25,016	$ —	$ —	$ 25,016
Total assets	25,016	—	—	25,016
Liabilities:				
Derivative liabilities, noncurrent	—	—	4,343	4,343
Class B Units - related party	—	—	593,235	593,235
Total liabilities	$ —	$ —	$ 597,578	$ 597,578

The level 3 liabilities relate to our Class B Units and certain employee and non-employee contracts with embedded derivatives, see Note 8, *Derivative Financial Instruments* and Note 9, *Stock-Based Compensation*.

(Dollar amounts in thousands, except unit and per unit data)

The following table summarizes the change in fair value of the derivative liabilities during the six months ended June 30, 2021 and 2020:

Balance at January 1, 2021	$	597,578
Change in fair value of derivative instruments		(1,726)
Incremental Class B Units		43,880
Change in fair value of Class B Units		598,533
Balance at June 30, 2021	$	1,238,265
Balance at January 1, 2020	$	119,307
Change in fair value of derivative instruments		997
Incremental Class B Units		11,258
Change in fair value of Class B Units		49,796
Balance at June 30, 2020	$	181,358

The following table summarizes the change in fair value of the Class B Units by income statement line item during the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of revenue	$ 10,446	$ 13,848	$ 112,389	$ 9,885
Sales and marketing	840	1,022	8,263	1,022
General and administrative	35,703	57,616	477,881	38,889
Total change in fair value of Class B Units	$ 46,989	$ 72,486	$ 598,533	$ 49,796

To derive the fair value of the Class B Units, we estimated the fair value of Class B Units using a valuation technique. For more information regarding the valuation of the Class B Units, see Note 9, *Stock-Based Compensation.*

7. Balance Sheet Components

Property and Equipment, Net

Property and equipment, net consists of the following:

		As of	
	Estimated Useful Lives	June 30, 2021	December 31, 2020
Furniture and fixtures	5 years	$ 960	$ 960
Computers, software and equipment	3 years	1,327	1,220
Leasehold improvements	Shorter of estimated useful life or remaining term of lease	1,278	1,278
		3,565	3,458
Less: Accumulated depreciation and amortization		(2,265)	(2,041)
Total property and equipment, net		$ 1,300	$ 1,417

Depreciation and amortization expense for property and equipment was $114 and $138 for the three months ended June 30, 2021 and 2020, and $224 and $226 for the six months ended June 30, 2021 and 2020, respectively.

Accrued Expenses

(Dollar amounts in thousands, except unit and per unit data)

Accrued expenses consist of the following:

	As of	
	June 30, 2021	December 31, 2020
Commission and variable compensation	$ 45,456	$ 17,271
Payroll and benefits	3,437	3,645
Other accrued expenses	16,365	11,218
Total accrued expenses	$ 65,258	$ 32,134

8. Derivative Financial Instruments

As part of our compensation and employee retention strategy, we entered into contracts with key employees and independent contractors which contain embedded derivatives. These contracts are intended to compensate the employees or independent contractors for services provided and retain their future services. These embedded derivative instruments are issued in the form of phantom interests in Net Income, as defined by our board of directors, that grant the holder value equal to a percentage of Net Income *multiplied* by a price multiple, or contain an option that granted appreciation rights upon exercise, and which become exercisable upon occurrence of an initial public offering. All derivative instruments are recorded at fair value as derivative liabilities on our consolidated balance sheets.

As of June 30, 2021, there are embedded derivative instruments outstanding. The following table presents information on the location and amounts of derivative instruments gains and losses:

		Three Months Ended June 30,		Six Months Ended June 30,	
		2021	2020	2021	2020
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income Statement				
Phantom Interests in Net Income	Other income, net	$ 394	$ (1,124)	$ —	$ (997)
Phantom Interests in Net Income	General and administrative	2,388	—	2,388	—
Option	General and administrative	(662)	—	(662)	—
Total		$ 2,120	$ (1,124)	$ 1,726	$ (997)

See *Fair Value Measurements* note for more information regarding the valuation of our derivative instruments.

9. Stock-Based Compensation

Class B Units

We recognized stock-based compensation expenses of $47,445 and $78,627 for the three months ended June 30, 2021 and 2020, and $648,520 and $99,124 for the six months ended June 30, 2021 and 2020, respectively. These amounts include profits distributions to Class B unitholders of $456 and $5,757 for the three months ended June 30, 2021 and 2020, and $6,107 and $38,070 for the six months ended June 30, 2021 and 2020, respectively. The amount of stock-based compensation expense included in each of the line items in the accompanying consolidated statement of operations is as follows:

(Dollar amounts in thousands, except unit and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of revenue	$ 10,568	$ 15,058	$ 124,916	18,226
Sales and marketing	840	1,022	14,910	2,225
General and administrative	36,037	62,547	508,694	78,673
Total stock based-compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

The following is a rollforward of Class B Units activity for the six months ended June 30, 2021:

Unvested at January 1, 2021	75,044
Granted	17,690
Vested	(29,848)
Unvested at June 30, 2021	62,886

The weighted-average grant-date fair value of Class B Units granted was $2,195.16 and $178.69 per unit during the six months ended June 30, 2021 and 2020, respectively.

Because the Class B Units are not publicly traded, the Company must estimate the fair value of its Class B Units in each reporting period. The fair values of Class B Units were estimated by the Company's board of managers based on the Company's equity value. The Company's board of managers considered, among other things, contemporaneous valuations of the Company's equity value prepared by an unrelated third-party valuation firm in accordance with the guidance provided by the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation.*

For the three and six months ended June 30, 2020, the fair value of the Class B Units was estimated using an option pricing model to allocate the equity value of the Company to the Class B Units based on their distribution rights. To derive the fair value of the Class B Unit liability, a two-step valuation approach was used. First the equity value of the Company was estimated. The Company considers asset, market, and income-based approaches. The Company determined that an income-based approach presented the best indication of value. As such, the Company relied upon a discounted cash flow approach using a five-year discrete projection period, discounting expected future cash flows back to that date. This calculated equity value was then allocated to the common units held by various stockholders using an option pricing model.

For the three and six months ended June 30, 2021, the fair value of the Class B Units was estimated using a probability-weighted expected return method. This method considered two scenarios: one based on a market approach according to a proposed acquisition of the Company and allocated through a liquidation waterfall, and the other based on the Company continuing as a private entity according to a discounted cash flow analysis, and allocated using an option pricing model. The results of these two methods were weighted to derive the fair value of the Class B Units as of June 30, 2021.

The discounted cash flow method estimates the equity value of the Company by projecting the Company's net cash flows into the future and discounting these net cash flows to present value by applying a discount rate. Key inputs for this valuation include the Company's projected cash flows and discount rate. Changes to these inputs could have a material impact on the accompanying consolidated financial statements.

The option pricing model allocates the equity value to each class of common units by preparing a breakpoint analysis to determine which securities would receive value at each threshold of a hypothetical liquidation. Then applying a Black-Scholes option pricing analysis to determine the incremental value of each respective breakpoint and allocating that value to each participating security based on its pro-rata ownership in the breakpoint. Key inputs for this valuation include the equity value of the Company, risk-free rate, allocation thresholds, and stock volatility.

(Dollar amounts in thousands, except unit and per unit data)

The Company considered several objective and subjective factors to determine the best estimate of the fair value of the Class B Units, including:

- the Company's historical and expected operating and financial performance;
- current business conditions;
- indications of value from external investors and their proposed value for the business;
- the Company's stage of development and business strategy;
- macroeconomic conditions;
- the Company's weighted average cost of capital;
- risk-free rates of return;
- the volatility of comparable publicly traded peer companies; and
- the lack of an active public market for the Company's equity units.

See also Note 2, *Stock Based Compensation.*

10. Earnings Per Unit

The following table sets forth the computation of basic and diluted earnings per unit:

		Three Months Ended June 30, 2021	
		Class A Units	Class B Units
Numerator			
Distributed earnings		$ 1,181	$ 456
Undeclared and undistributed earnings:			
Net loss	$ (7,895)		
Minus: Distributions to Class A unitholders	1,181		
Undeclared and undistributed loss	(9,076)		
Undeclared and undistributed (loss) earnings by unit class		(9,076)	—
Total (loss) earnings by unit class		$ (7,895)	$ 456
Denominator			
Weighted average units used in computing earnings per unit, basic and diluted		528,519	526,580
Earnings per unit class:			
Distributed earnings		$ 2.23	$ 0.87
Undistributed loss		(17.17)	—
Total		$ (14.94)	$ 0.87

(Dollar amounts in thousands, except unit and per unit data)

		Three Months Ended June 30, 2020	
		Class A Units	Class B Units
Numerator			
Distributed earnings		$ 8,378	$ 5,757
Undeclared and undistributed earnings:			
Net income	$ (80,045)		
Minus: Distributions to Class A unitholders	8,378		
Undeclared and undistributed earnings	(88,423)		
Undeclared and undistributed earnings by unit class		(88,423)	—
Total earnings by unit class		$ (80,045)	$ 5,757
Denominator			
Weighted average units used in computing earnings per unit, basic and diluted		547,466	496,732
Earnings per unit class:			
Distributed earnings		$ 15.30	$ 11.59
Undistributed earnings		(161.51)	—
Total		$ (146.21)	$ 11.59

		Six Months Ended June 30, 2021	
		Class A Units	Class B Units
Numerator			
Distributed earnings		$ 15,098	$ 6,107
Undeclared and undistributed earnings:			
Net loss	$ (622,348)		
Minus: Distributions to Class A unitholders	15,098		
Undeclared and undistributed loss	(637,446)		
Undeclared and undistributed (loss) earnings by unit class		(637,446)	—
Total (loss) earnings by unit class		$ (622,348)	$ 6,107
Denominator			
Weighted average units used in computing earnings per unit, basic and diluted		528,519	526,580
Earnings per unit class:			
Distributed earnings		$ 28.57	$ 11.60
Undistributed loss		(1,206.10)	—
Total		$ (1,177.53)	$ 11.60

(Dollar amounts in thousands, except unit and per unit data)

		Six Months Ended June 30, 2020	
		Class A Units	Class B Units
Numerator			
Distributed earnings		$ 66,145	$ 38,070
Undeclared and undistributed earnings:			
Net loss	$ (96,546)		
Minus: Distributions to Class A unitholders	66,145		
Undeclared and undistributed loss	(162,691)		
Undeclared and undistributed (loss) earnings by unit class		(162,691)	—
Total (loss) earnings by unit class		$ (96,546)	$ 38,070
Denominator			
Weighted average units used in computing earnings per unit, basic and diluted		548,596	495,201
Earnings per unit class:			
Distributed earnings		$ 120.57	$ 76.88
Undistributed loss		(296.56)	—
Total		$ (175.99)	$ 76.88

11. Related Party Transactions

We have certain revenue share agreements with related parties. Accordingly, we recognized revenue from related parties of $246 and $890 for the three months ended June 30, 2021 and 2020, and $619 and $1,438 for the six months ended June 30, 2021 and 2020, respectively.

We also incurred revenue share expenses paid to related parties of $1,586 and $1,051 which were capitalized as contract origination costs for the three months ended June 30, 2021 and 2020, and $7,584 and $1,629 which were capitalized as contract origination costs for the six months ended June 30, 2021 and 2020, respectively. We also incurred revenue share expenses of $10 and $25 paid to a related party vendor owned by a Class A unitholder which were capitalized as contract origination costs for the three months ended June 30, 2021 and 2020, and $17 and $45 for the six months ended June 30, 2021 and 2020, respectively.

Additionally, a related party provided call center support and other services to the Company for which we recorded an expense within cost of revenue of $378 and $261 for the three months ended June 30, 2021 and 2020, and $613 and $843 for the six months ended June 30, 2021, respectively.

A related party also provided certain corporate functions to MarketWise and the costs of these services are charged to MarketWise and recorded within related party expenses in the accompanying consolidated statement of operations. We held balances of $1,419 and $3,288 as of June 30, 2021 and December 31, 2020 of related party payables related to these services. The balances with our related party are presented net and are included in related party payables, net in the consolidated balance sheet.

We earned fees and provided certain accounting and marketing services to companies owned by certain of MarketWise's Class B unitholders. As a result, we recognized $79 and $90 in other income, net for the three months ended June 30, 2021 and 2020, and $142 and $194 for the six months ended June 30, 2021 and 2020, respectively. Related party receivables related to these services were $844 and $689 as of June 30, 2021 and December 31, 2020, respectively.

We lease offices from related parties. Lease payments made to related parties were $383 and $376 for the three months ended June 30, 2021 and 2020, and $767 and $752 for the six months ended June 30, 2021 and 2020, respectively, and rent expense of $556 was recognized in general and administrative expenses for the three months ended June 30, 2021 and 2020, and $1,112 for the six months ended June 30, 2021 and 2020, related to leases with related parties. At June 30, 2021 and December 31, 2020, ROU assets of $11,149 and $11,957 and lease liabilities of $8,027 and $8,490 are associated with leases with related parties.

(Dollar amounts in thousands, except unit and per unit data)

We lease office space from a company owned by certain Class B unitholders and made lease payments of $14 for the three months ended June 30, 2021 and 2020, and $28 for the six months ended June 30, 2021 and 2020, that were recognized in general and administrative expenses.

We incurred costs related to lead generation marketing from a related party vendor which was partially owned by a shareholder through November 2020. We purchased lead generation marketing of $2,917 and $8,044 for the three and six months ended June 30, 2020, respectively, which was recorded in sales and marketing expenses.

We incurred marketing costs from a related party vendor of $39 and $18 for the three months ended June 30, 2021 and 2020, and $75 and $38 for the six months ended June 30, 2021 and 2020, respectively, which was recorded in sales and marketing expenses.

In November 2015, we provided a loan to our Class B unitholders which bears interest at 3% and recognized a related party note receivable from the unitholders, which was repaid during 2020. We recognized $19 and $37 in interest income for the three and six months ended June 30, 2020, respectively.

In August 2019 we provided an additional loan to a Class B unitholder and recognized a related party note receivable from the unitholder of $3,000. We recognized $9 and $25 in interest income for the three and six months ended June 30, 2020, respectively. This loan was repaid during 2020.

In April 2020 we provided a loan to a Class A unitholder and recognized a related party note receivable from the unitholder of $1,148 as of December 31, 2020. We recognized $3 and $1 in interest income for the three months ended June 30, 2021 and 2020, and $5 and $1 for the six months ended June 30, 2021 and 2020, respectively. The interest rate on the loan is variable and was 1.02% as of June 30, 2021. The loan is due in April 2025, but is required to be repaid within 30 days if we complete an initial public offering.

12. Variable Interest Entities

We consolidated a VIE based on our ability to exercise power and being the primary beneficiary of the entity including directing the operations and marketing campaigns and sharing customer lists and publications, as of June 30, 2021 and December 31, 2020. There have been no reconsideration events during these periods. The assets of consolidated variable interest entities may only be used to settle obligations of these entities. In addition, there is no recourse to MarketWise for the consolidated VIE’s liabilities. The following represents financial information for the consolidated VIE included in the consolidated balance sheets:

	As of	
	June 30, 2021	December 31, 2020
Current assets	$ 3,759	$ 3,787
Noncurrent assets	8	22
Total assets	$ 3,767	$ 3,809
Current liabilities	$ 3,109	$ 3,265
Noncurrent liabilities	—	—
Total liabilities	$ 3,109	$ 3,265

(Dollar amounts in thousands, except unit and per unit data)

13. Supplemental Cash Flow Information

Supplemental cash flow disclosures are as follows:

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Supplemental Disclosures of Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (875)	$ (1,694)
Operating lease right-of-use assets obtained in exchange for lease obligations from acquisitions	(398)	—

	As of June 30, 2021	As of June 30, 2020
Reconciliation of Cash and Cash Equivalents and Restricted Cash:		
Cash and cash equivalents	$ 241,532	$ 119,479
Restricted cash	500	504
Total	$ 242,032	$ 119,983

14. Subsequent Events

Subsequent events have been evaluated through August 12, 2021, which is the date that the financial statements were available to be issued.

In July 2021, the Company’s board approved and made a discretionary lifetime award payment of $10 million to the Company’s founder, who is a Class B unitholder and was formerly a member of the board.

Transaction Agreement

On July 20, 2021, as contemplated by that certain Business Combination Agreement, dated as of March 1, 2021, by and among Ascendant Digital Acquisition Corp. (“ADAC”), MarketWise, LLC, all of the members of MarketWise, LLC (the “MarketWise Members”), and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative of the MarketWise Members thereunder (as amended, the “Transaction Agreement”), ADAC filed a notice of deregistration with the Cayman Islands Registrar of Companies, together with the necessary accompanying documents, and filed a certificate of incorporation and a certificate of corporate domestication with the Secretary of State of the State of Delaware, under which ADAC was domesticated and continues as a Delaware corporation, changing its name to “MarketWise, Inc.”.

As a result of, and upon the effective time thereof, among other things, (1) each of the then issued and outstanding Class A ordinary shares, par value $0.0001 per share, of ADAC (the “ADAC Class A ordinary shares”) automatically converted, on a one-for-one basis, into a share of Class A common stock, par value $0.0001 per share, of MarketWise, Inc. (the “Class A common stock”); (2) each of the then issued and outstanding redeemable warrants of ADAC automatically converted into a redeemable warrant to acquire one share of Class A common stock (the “warrants”); and (3) each of the then issued and outstanding units of ADAC that had not been previously separated into the underlying ADAC Class A ordinary shares and underlying warrants upon the request of the holder thereof were cancelled and entitled the holder thereof to one share of Class A common stock and one-half of one warrant. No fractional warrants were issued upon such separation.

On July 21, 2021, as contemplated by the Transaction Agreement, MarketWise, Inc. and MarketWise, LLC consummated the business combination contemplated by the Transaction Agreement whereby (i) MarketWise, LLC restructured its capitalization, appointed MarketWise, Inc. as its managing member, and issued to MarketWise, Inc. 28,003,096 common units of MarketWise, LLC (the “MarketWise Units”), which units entitle the holder to the distributions, allocations, and other rights under the Third Amended and Restated Operating Agreement of MarketWise, LLC (the “MarketWise Operating Agreement”), and 30,979,993 warrants to purchase MarketWise

Units and (ii) MarketWise, Inc. issued 291,092,300 shares of Class B common stock, par value $0.0001 per share, of MarketWise, Inc. (the “Class B common stock” and, together with the Class A common stock, the “common stock”) to the MarketWise Members.

As previously announced, on March 1, 2021, concurrently with the execution of the Transaction Agreement, ADAC entered into subscription agreements (the “Subscription Agreements”) with certain investors (collectively, the “PIPE Investors”) pursuant to, and on the terms and subject to the conditions of which, the PIPE Investors collectively subscribed for 15,000,000 shares of Class A common stock at $10.00 per share for an aggregate commitment amount of $150,000,000 (the “PIPE Investment” and, together with the other transactions described above and all transactions contemplated by or pursuant to the Transaction Agreement and all other agreements, documents, instruments and certificates entered into in connection therewith and any and all exhibits and schedules thereto, the “Transactions”). The PIPE Investment was consummated on July 21, 2021 substantially concurrently with the closing of the other Transactions.

Immediately after giving effect to the Transactions, there were 28,003,096 shares of Class A common stock (including 3,051,000 Sponsor Earn Out Shares (as defined below)), 291,092,300 shares of Class B common stock, and 30,979,993 warrants outstanding (including 10,280,000 private placement warrants (as defined below)). Upon the consummation of the Transactions, ADAC’s ordinary shares, warrants, and units ceased trading on The New York Stock Exchange, and MarketWise, Inc.’s Class A common stock and warrants began trading on the Nasdaq under the symbols “MKTW” and “MKTW W,” respectively. Immediately after giving effect to the Transactions, (1) ADAC’s public shareholders owned approximately 0.1% of the outstanding MarketWise, Inc. common stock, (2) the MarketWise Members (without taking into account any public shares held by the MarketWise Members prior to the consummation of the Transactions) owned approximately 91.2% of the outstanding MarketWise, Inc. common stock, (3) Ascendant Sponsor LP, a Cayman Islands exempted limited partnership and related parties collectively owned approximately 3.2% of the outstanding MarketWise, Inc. common stock (including 3,051,000 Sponsor Earn Out Shares), and (4) the PIPE Investors owned approximately 4.7% of the outstanding MarketWise, Inc. common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of MarketWise, LLC, a Delaware limited liability company ("MarketWise," "we," "us," and "our"), should be read together with our unaudited condensed interim consolidated financial statements as of June 30, 2021 and for the three- and six-month periods ended June 30, 2021 and 2020, together with related notes thereto, and our pro forma financial information as of and for the six-month period ended June 30, 2021 included as exhibits to the amendment ("Amendment No. 1") to our Current report on Form 8-K, which was originally filed with the SEC on July 27, 2021 (as originally filed, the "Original Report"). The discussion and analysis should also be read together with our audited consolidated financial statements as of December 31, 2020 and 2019 and for each of the years ended December 31, 2020, 2019, and 2018 and the sections entitled "Information About MarketWise" and "MarketWise's Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference into the Original Report. The following discussion contains forward-looking statements. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ materially from those projected in the forward-looking statements include, but are not limited to, those discussed in the sections entitled "Risk Factors" and "Cautionary Statement Regarding Forward Looking Statements" incorporated by reference into the Original Report.

Capitalized terms used, but not defined, herein have the meaning assigned to them in the Original Report.

Overview

We are a leading multi-brand platform of subscription businesses that provides premium financial research, software, education, and tools for self-directed investors. We offer a comprehensive portfolio of high-quality, independent investment research, as well as several software and analytical tools, on a subscription basis.

MarketWise started in 1999 with the simple idea that, if we could publish intelligent, independent, insightful, and in-depth investment research and treat the subscriber the way we would want to be treated, then subscribers would renew their subscriptions and stay with us. Over the years, we have expanded our business into a comprehensive suite of investment research products and solutions. We now produce a diversified product portfolio from a variety of financial research companies such as Stansberry Research, Palm Beach Research, Casey Research, InvestorPlace, and Empire Financial Research. Our entire investment research product portfolio is 100% digital and channel agnostic, and we offer all of our research across a variety of platforms, including desktop, laptop, and mobile devices, including tablets and mobile phones.

Today, we benefit from the confluence of a leading editorial team, diverse portfolio of content and brands, and comprehensive suite of investor-centric tools that appeal to a broad subscriber base.

The Transactions

The Transactions were consummated on July 21, 2021. The Transactions will be accounted for akin to a reverse recapitalization, with no goodwill or other intangible assets recorded, in accordance with U.S. GAAP. The Transactions are expected to have several significant impacts on our future reported financial position and results, as a consequence of reverse capitalization treatment.

These impacts include an estimated net reduction in cash (as compared to our balance sheet at June 30, 2021) of $121.5 million. This pro forma cash amount includes: (a) the reclassification of ADAC's Trust Account of $414.3 million to cash and cash equivalents that becomes available at the time of the Transactions; (b) proceeds of $150.0 million from the issuance and sale of MarketWise Class A common stock in the PIPE investment; (c) payment of $42.0 million in non-recurring transaction costs; (d) settlement of $14.5 million in deferred underwriters' discount; and (e) the payment of $387.7 million to redeeming shareholders of ADAC. See "Unaudited Pro Forma Condensed Combined Financial Information" and Note 14, *Subsequent Events*, to our unaudited interim condensed consolidated financial statements included as exhibits in the Amendment.

Key Factors Affecting Our Performance

We believe that our growth and future success are dependent upon several factors, including those below and those noted in the "Risk Factors" section in the Original Report. The key factors below represent significant business opportunities as well as challenges that we must successfully address in order to continue our growth and improve our financial results.

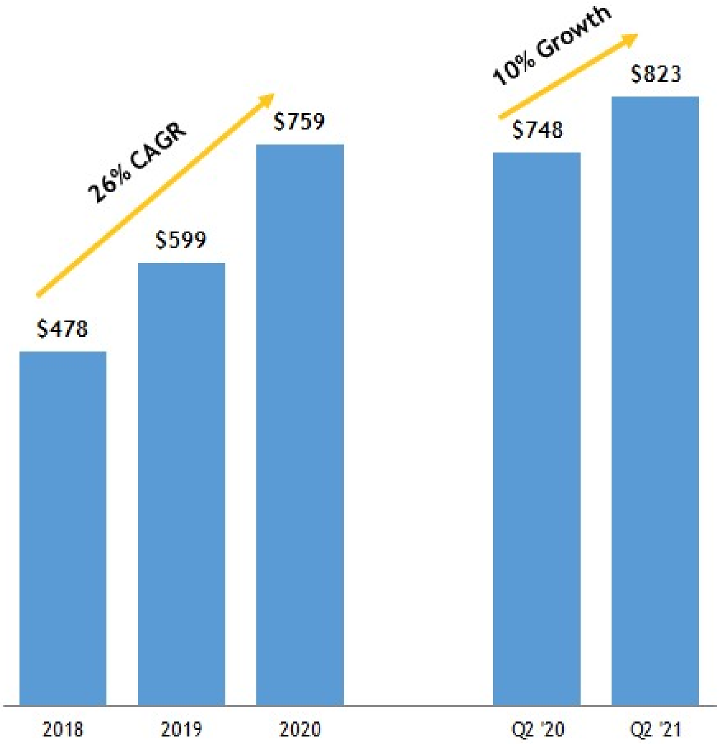
Growing our subscriber base with compelling unit economics. We are highly focused on continuing to acquire new subscribers to support our long-term growth. Our marketing spend is a large driver of new subscriber growth. At the heart of our marketing strategy is our compelling unit economics that combine long-term subscriber relationships, highly scalable content delivery, cost-effective customer acquisition, and high-margin conversions.

Our Paid Subscribers as of December 31, 2020 generated average customer lifetime Billings of approximately $2,700, resulting in a LTV/CAC ratio of more than 5x. On average, it takes us approximately seven to nine months for a Paid Subscriber's cumulative net revenue to exceed the total cost of acquiring that subscriber (which includes fixed costs, such as marketing salaries). For more information on our LTV/CAC ratio and the components of this ratio, see "—Definitions of Metrics."

We adjust our marketing spend to drive efficient and profitable customer acquisition. We can adjust our marketing spend in near real-time, and we monitor costs per acquisition relative to the cart value of the initial subscription. We seek and typically achieve 90-day payback periods to cover this variable component of the direct marketing spend.

We have invested, and expect to continue to invest, heavily in sales and marketing efforts to drive customer acquisition.

Retaining and expanding relationship with existing subscribers. We believe that we have a significant opportunity to expand our relationships with our large base of Free and Paid Subscribers. Thanks to the quality of our products, we believe our customers will continue their relationship with us and extend and increase their subscriptions over time. As we deepen our engagement with our subscribers, our customers tend to purchase more and higher-value products. Our ARPU as of June 30, 2021 was $823, which increased 10% from June 30, 2020, in line with increasing value that our subscribers receive from our product offerings. Our ARPU grew at a CAGR of 26% over the three-year period ended December 31, 2020.



(1) ARPU is calculated as the trailing four quarters of Billings *divided by* the average number of quarterly total Paid Subscribers over that period.

Conversion rates are important to our business because they are an indicator of how engaged and how well we are connecting with our subscribers. The time it takes our customers to move from our free products to our lower-priced paid subscriptions and eventually to high-end products and lifetime “bundled” offerings impacts our growth in net revenue, Billings, and ARPU.

Definitions of Metrics

Throughout this discussion and analysis, a number of our financial and operating metrics are referenced which we do not consider to be key business metrics, but which we review to monitor performance, and which we believe may be useful to investors. These are:

Free-to-paid conversion rate: We calculate our free-to-paid conversion rate as (x) the number of Free Subscribers who purchased a subscription during the period *divided by* (y) the average number of Free Subscribers during the period. We believe our free-to-paid conversion rate is an indicator of the type of Free Subscribers that we are signing up and the quality of our content and marketing efforts. Investors should consider free-to-paid conversion rate as one of the factors in evaluating our ability to maintain a robust pipeline for new customer acquisition.

High-value conversion rates: Our high-value conversion rate reflects the rate at which a Paid Subscriber that has purchased less than $600 of our products over their lifetime converts into a subscriber that has purchased more than $600. We calculate high-value conversion rates on a periodic and a cumulative basis. We believe our high-value conversion rate is one indicator that our existing subscribers are engaged and reflects a likelihood that they will expand their relationship with us over time. Investors should consider high-value conversion rates as a factor in evaluating our ability to retain and expand our relationship with subscribers.

- *Periodic high-value conversion rate:* We calculate periodic high-value conversion rate as (x) the number of Paid Subscribers whose cumulative lifetime spend grew to more than $600 during the period *divided by* (y) the average number of Paid Subscribers whose cumulative lifetime spend was less than $600 at any time during the period.

- *Cumulative high-value conversion rate:* We calculate cumulative high-value conversion rate as (x) the number of Paid Subscribers who have purchased more than $600 in aggregate over their lifetime as of end of the period *divided by* (y) the number of Paid Subscribers as of the end of the period.

Cumulative ultra high-value conversion rate: Our cumulative ultra high-value conversion rate reflects the rate at which a high-value Paid Subscriber that has purchased more than $600 of our products over their lifetime converts into a subscriber that has purchased more than $5,000. We calculate cumulative ultra-high value conversion rate as (x) the number of Paid Subscribers who have purchased more than $5,000 in aggregate over their lifetime as of end of the period *divided by* (y) the number of high-value Paid Subscribers as of end of the period. We believe our cumulative ultra high-conversion rate reflects our ability to successfully build lifetime relationships with our subscribers, often across multiple products and brands. Investors should consider cumulative ultra high-value value conversion rate as a factor in evaluating our ability to retain and expand our relationship with our subscribers.

LTV/CAC ratio: We calculate LTV/CAC ratio as LTV *divided by* CAC. We use LTV/CAC ratio because it is a standard metric for subscription-based businesses, and we believe that an LTV/CAC ratio above 3x is considered to be indicative of strong profitability and marketing efficiency. We believe that an increasing LTV per subscriber reflects our existing subscribers recognizing our value proposition, which will expand their relationship with us across our platform over time, either through a combination of additional product purchases or by joining our lifetime offerings. Investors should consider this metric when evaluating our ability to achieve a return on our marketing investment. Lifetime value ("LTV") represents the average margin on average customer lifetime billings (that is, the estimated cumulative spend across a customer's lifetime). Customer acquisition cost ("CAC") is defined as direct marketing spend, *plus* external revenue share expense, *plus* retention and renewal expenses, *plus* copywriting and marketing salaries, *plus* telesales salaries and commissions, *plus* customer service commissions.

Net revenue retention: Net revenue retention is defined as Billings from all prior period cohorts in the current period, *divided by* all Billings from the prior period. We believe that a high net revenue retention rate is a measure of customer retention and an indicator of the engagement of our subscribers with our products. Investors should consider net revenue retention as an ongoing measure when evaluating our ability to convert customers to higher-value subscriptions or products over time.

Key Business Metrics and Non-GAAP Financial Measures

Key Business Metrics

We review the following key business metrics to measure our performance, identify trends, formulate financial projections, and make strategic decisions. We are not aware of any uniform standards for calculating these key metrics, which may hinder comparability with other companies who may calculate similarly titled metrics in a different way.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended March 31, 2021
	2021	2020	2021	2020	
Free Subscribers	11,970,356	6,817,076	11,970,356	6,817,076	10,870,171
Paid Subscribers	994,491	683,593	994,491	683,593	1,001,432
ARPU	$ 823	$ 748	$ 823	$ 748	$ 825
Billings (in thousands)	$ 185,100	$ 123,112	440,403	240,566	255,303

Free Subscribers. Free Subscribers are defined as unique subscribers who have subscribed to one of our many free investment publications via a valid email address and continue to remain directly opted in, excluding any Paid Subscribers who also have free subscriptions. Free subscriptions are often daily publications that include some commentary about the stock market, investing ideas, or other specialized topics. Included within our free publications are advertisements and editorial support for our current marketing campaigns. While subscribed to our publications, Free Subscribers learn about our editors and analysts, get to know our products and services, and learn more about ways we can help them be a better investor.

Free Subscribers increased by 1.1 million to 12.0 million as of June 30, 2021 as compared to 10.9 million as of March 31, 2021. This growth was driven by our continued lead generation efforts and the expansion of our product set.

Free Subscribers increased by 5.2 million from June 30, 2020 to June 30, 2021, as our significant lead-generation efforts that began in earnest during late 2018 and intensified during 2019 with the expansion across multiple brands continued into the second quarter of 2021.

Paid Subscribers. We define Paid Subscribers as the total number of unique subscribers with at least one paid subscription at the end of the period. We view the number of Paid Subscribers at the end of a given period as a key indicator of the attractiveness of our products and services, as well as the efficacy of our marketing in converting Free Subscribers to Paid Subscribers and generating direct-to-paid Paid Subscribers. We grow our Paid Subscriber base through performance marketing directly to prospective and existing subscribers across a variety of media, channels, and platforms.

Total Paid Subscribers decreased by 7 thousand in second quarter 2021 as compared to first quarter 2021, reaching total Paid Subscribers of 1 million at June 30, 2021. The slight decline in Paid Subscribers this quarter was due to a number of factors which we believe are related to the travel and leisure boom associated with the dramatic reopening of the economy. First, the cost of advertising began to increase through the second quarter as the travel and hospitality industries significantly increased their usage of digital mediums to market their products. This has tended to increase our per unit subscriber acquisition cost. Additionally, toward the end of the second quarter, we began to see what some are referring to as a “revenge travel boom,” as Americans began to make up for the inability to travel for the last sixteen months. As a result, we believe it currently costs more to get the attention of prospective customers who are venturing out rather than focusing on their investments. We focus closely on our break-even metrics, and as our per unit subscriber acquisition cost increases, we will adjust and focus our marketing on existing customers, for which that cost is close to zero. We will continue to evaluate our unit acquisition costs and believe that there should be some normalization as we get into the fall.

Subscriber count churn was at the higher end of the recent historic range indicated in our investor slide deck. After periods of rapid growth, it is not unusual to see a modest increase in churn as some of the less engaged, new Paid Subscribers churn off. Indicative of this, almost all of the subscribers who churned in the quarter did so having owned only one entry level publication. This is evidenced by the fact that their ARPU approximately matched the subscription price of our entry level publications.

The year over year growth in Paid Subscriber count was driven by a combination of effective direct-to-paid conversions and continued strong free-to-paid conversions.

Average Revenue Per User. We define ARPU as average revenue per user, calculated as the trailing four quarters of net Billings *divided by* the average number of quarterly total Paid Subscribers over that period. We believe ARPU is a key indicator of how successful we are in converting subscribers to higher-value content. We believe that increasing ARPU is indicative of the trust we build with our subscribers and of the value they see in our products and services.

ARPU decreased by $2, or 0.3%, to $823 as of June 30, 2021 as compared to $825 as of March 31, 2021 but increased by $75.6, or 10.1% during the second quarter of 2021 as compared to the second quarter of 2020. This growth was driven by strong ongoing high-value conversions as indicated by customers buying additional higher value content at higher price points. High value conversions over the trailing twelve months drove ARPU higher even as we added a record number of new Paid Subscribers.

For each of these periods, we believe the growth was attributable to the quality of our content and more effective sales and marketing efforts with a greater focus on expanding sales to existing subscribers and converting our subscribers to higher-value content at more expensive price points, including bundled subscriptions and lifetime subscriptions. These subscriptions have compelling economics that allow us to recoup our initial marketing spend made to acquire these subscribers. Specifically, our payback period was estimated at 0.7 years for 2020, and was 0.8 and 0.9 years for 2019 and 2018, respectively. We have experienced a stable payback period in the range of 0.7 to 0.9 years reliably over the past many years, despite the increases in customer acquisition costs that the digital subscription industry has experienced in recent years. The payback period decreased further in 2020 as a result of expanded conversion rates and, to a far lesser degree, decreasing costs for media spend as demand dropped as a result of the pandemic. We expect the costs for media spend to revert back to higher rates as we move further into 2021.

Billings. Billings represents amounts invoiced to customers. We measure and monitor our Billings because it provides insight into trends in cash generation from our marketing campaigns. We generally bill our subscribers at the time of sale and receive full cash payment up front, and defer and recognize a portion of the related revenue ratably over time for term and lifetime subscriptions. For certain subscriptions, we may invoice our Paid Subscribers at the beginning of the term, in annual or monthly installments, and, from time to time, in multi-year installments. Only amounts invoiced to a Paid Subscriber in a given period are included in Billings. While we believe that Billings provides valuable insight into the cash that will be generated from sales of our subscriptions, this metric may vary from period to period for a number of reasons and, therefore, Billings has a number of limitations as a quarter-over-quarter or year-over-year comparative measure. These reasons include, but are not limited to, the following: (i) a variety of contractual terms could result in some periods having a higher proportion of annual or lifetime subscriptions than other periods; (ii) fluctuations in payment terms may affect the Billings recognized in a particular period; and (iii) the timing of large campaigns may vary significantly from period to period.

Billings increased by $62.0 million, or 50%, to $185.1 million in the second quarter of 2021 as compared to the second quarter of 2020. On a year to date basis, Billings increased $199.8 million, or 83%, in the second quarter of 2021 as compared to the second quarter of 2020. In both periods, these increases can be attributed to strong lifetime and high value subscription sales, combined with strong new Paid Subscriber performance across our brands and publications.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe that the below non-GAAP financial measures are useful in evaluating our operating performance. We use the below non-GAAP financial measures, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance, and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. This non-GAAP financial information is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

(In thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Adjusted CFFO	$ 59,370	$ 37,341	$ 157,325	$ 63,269
Adjusted CFFO Margin	32.1 %	30.3 %	35.7 %	26.3 %

Adjusted CFFO / Adjusted CFFO Margin

In addition to our results determined in accordance with GAAP, we disclose the non-GAAP financial measure Adjusted CFFO. We define Adjusted CFFO as cash flow from operations *plus* profits distributions that were recorded as stock-based compensation expense from the Class B Units, plus or minus any non-recurring items. Profits distributions to Class B unitholders included amounts attributable to the Class B unitholders' potential tax liability with respect to the Class B Units (*i.e.*, there was no tax withholding, and the full amount of allocable profit was distributed, subject to the terms of the Existing LLC Agreement). We define Adjusted CFFO Margin as Adjusted CFFO as a percentage of Billings.

We believe that Adjusted CFFO and Adjusted CFFO Margin are useful indicators that provide information to management and investors about ongoing operating performance, to facilitate comparison of our results to those of peer companies over multiple periods, and for internal planning and forecasting purposes.

We have presented Adjusted CFFO because we believe it provides investors with greater comparability of our operating performance without the effects of stock-based compensation expense related to holders of Class B Units that are not expected to continue following the consummation of the Transactions, in which all Class B Units will be converted into Common Units. Following the consummation of the Transactions, we will make certain tax distributions to the MarketWise Members in amounts sufficient to pay individual income taxes on their respective allocation of the profits of MarketWise, LLC at then prevailing individual income tax rates. These distributions will not be recorded on MarketWise, Inc.'s income statement, and will be reflected on MarketWise, Inc.'s cash flow statement as cash used in financing activities. The cash used to make these distributions will not be available to us for use in the business.

Adjusted CFFO and Adjusted CFFO Margin have limitations as analytical tools, and should not be considered in isolation or as substitutes for analysis of other GAAP financial measures, such as cash flow from operations or operating cash flow margin. Some of the limitations of using Adjusted CFFO and Adjusted CFFO Margin are that these metrics may be calculated differently by other companies in our industry.

We expect Adjusted CFFO and Adjusted CFFO Margin to fluctuate in future periods as we invest in our business to execute our growth strategy. These activities, along with any non-recurring items as described above, may result in fluctuations in Adjusted CFFO and Adjusted CFFO Margin in future periods.

The following table provides a reconciliation of net cash provided by operating activities, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted CFFO for each of the periods presented:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net cash provided by operating activities	**$ 58,914**	**$ 31,584**	**$ 151,218**	**$ 25,199**
Profits distributions to Class B unitholders included in stock-based compensation expense	456	5,757	6,107	38,070
Adjusted CFFO	**$ 59,370**	**$ 37,341**	**$ 157,325**	**$ 63,269**

The following table provides the calculation of net cash provided by operating activities margin as a percentage of net revenue, the most directly comparable financial measure in accordance with GAAP, and Adjusted CFFO Margin for each of the periods presented:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net cash provided by operating activities	**58,914**	**31,584**	**151,218**	**25,199**
Net revenue	142,130	82,795	261,844	159,177
Net cash provided by operating activities margin	**41.5 %**	**38.1 %**	**57.8 %**	**15.8 %**
Adjusted CFFO	59,370	37,341	157,325	63,269
Billings	185,100	123,112	440,403	240,566
Adjusted CFFO Margin	**32.1 %**	**30.3 %**	**35.7 %**	**26.3 %**

The Effect of the COVID-19 Pandemic

COVID-19 was declared a pandemic by the World Health Organization and has spread across the globe, impacting worldwide activity and financial markets. COVID-19 has had a significant impact on the global supply chain, financial markets, trading activities, and consumer behavior, and the expected duration of these impacts remain uncertain.

We have continued to operate our business without much disruption during the pandemic, and we required our employees to work remotely in response to stay-at-home orders imposed by the U.S. and local governments in March 2020. While COVID-19 has impacted the sales and profitability of many companies' business over this period, it has not negatively impacted our net revenues so far, and our business has continued to perform well.

While it is not possible at this time to estimate the impact, if any, that COVID-19 will have on our business longer term, the continued spread of COVID-19 and the measures taken by governments, businesses, and other organizations in response to COVID-19 could adversely impact our business, financial condition, and our results of operations. For more information, see the "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" sections of the Original Report.

Components of MarketWise's Results of Operations

Net Revenue

We generate net revenue primarily from services provided in delivering term and lifetime subscription-based financial research, publications, and SaaS offerings to individual subscribers through our online platforms, advertising arrangements, print products, events, and revenue share agreements.

Net revenue is recognized ratably over the duration of the subscriptions, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. In addition to term subscriptions, we offer lifetime subscriptions where we receive a large upfront payment when the subscriber enters into the contract, and for which we will receive a lower annual maintenance fee thereafter. Subscribers are typically billed in advance of the subscriptions. Much of our net revenue is generated from subscriptions entered into during previous periods. Consequently, any decreases in new subscriptions or renewals in any one period may not be immediately reflected as a decrease in net revenue for that period, but could negatively affect our net revenue in future quarters. This also makes it difficult for us to rapidly increase our net revenue through the sale of additional subscriptions in any period, as net revenue is recognized over the term of the subscription agreement. We expect subscription net revenue to continue to increase as we have experienced sales growth in lifetime and multi-year contracts in recent periods.

We earn net revenue from the sale of advertising placements on our websites and from the sale of print products and events. We also recognize net revenue through revenue share agreements where we earn a commission for successful sales by other parties generated through the use of our customer list. We expect advertising and other net revenue to increase in absolute dollars as our business grows.

Net revenue earned in 2018 through the second quarter of 2021 was almost 100% organic. Net revenue from acquisitions was less than 1% of net revenue earned in 2018 through the second quarter of 2021, and the remainder was attributable to brands developed internally since 2018 and businesses acquired or developed prior to 2018. In the future, we expect to continue to grow revenue organically, as well as through acquisitions, joint ventures, and other strategic transactions.

Employee Compensation Costs

Employee compensation costs, or payroll and payroll-related costs, include salaries, bonuses, benefits, and stock-based compensation for employees classified within cost of revenue, sales and marketing, and general and administrative, and also includes sales commissions for sales and marketing employees.

Stock-based compensation expense is related to the Class B Units. The Class B Units are classified as liabilities as opposed to equity and remeasured to fair value at the end of each reporting period until settlement into equity, with the change in value being charged to stock-based compensation expense. Because the Class B Units are classified as liabilities on our consolidated balance sheet, all profits distributions made to the holders of the Class B Units are considered to be stock-based compensation expenses. We recognized total stock-based compensation expenses of $47.4 million and $78.6 million for the three months ended June 30, 2021 and 2020, respectively, and $648.5 million and $99.1 million for the six months ended June 30, 2021 and 2020, respectively.

The amount of stock-based compensation expense included within each of the respective line items in the consolidated statement of operations is as follows:

(In thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Cost of revenue	$ 10,568	$ 15,058	$ 124,916	$ 18,226
Sales and marketing	840	1,022	14,910	2,225
General and administrative	36,037	62,547	508,694	78,673
Total stock based-compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

Total stock-based compensation expenses include profits distributions to holders of Class B Units of $0.5 million and $5.8 million for the three months ended June 30, 2021 and 2020, respectively, and $6.1 million and $38.1 million for the six months ended June 30, 2021 and 2020, respectively.

As a result of the Transactions, in which all Class B Units will be converted into Common Units, we do not expect to continue recognizing stock-based compensation expenses related to the Class B Units for periods after the consummation of the Transactions. While going forward we do not expect to incur the levels of stock-based compensation expense we have historically as a result the liability-award classification of the Class B Units, we do expect to incur stock-based compensation expense in the ordinary course.

Cost of Revenue

Cost of revenue consists primarily of payroll and payroll-related costs associated with producing and publishing MarketWise's content, hosting fees, customer service, credit card processing fees, product costs, and allocated overhead. Cost of revenue is exclusive of depreciation and amortization, which is shown as a separate line item.

Within cost of revenue are stock-based compensation expenses related to the Class B Units of $10.6 million and $15.1 million for the three months ended June 30, 2021 and 2020, respectively, and $124.9 million and $18.2 million for the six months ended June 30, 2021 and 2020, respectively. These amounts include profits distributions to holders of Class B Units of $0.1 million, $1.2 million, $1.2 million, and $7.3 million, respectively.

We expect cost of revenue to increase as our business grows, including as a result of new acquisitions, joint ventures, and other strategic transactions. However, the level and timing of our variable compensation may not match the pattern of how net revenue is recognized over the subscription term. Therefore, we expect that our cost of revenue will fluctuate as a percentage of its net revenue in the future.

Sales and Marketing

Sales and marketing expenses consist primarily of payroll and related costs, amortization of deferred contract acquisition costs, agency costs, advertising campaigns, and branding initiatives. Sales and marketing expenses are exclusive of depreciation and amortization shown as a separate line item.

Within sales and marketing expenses are stock-based compensation expenses related to the Class B Units of $0.8 million and $1.0 million for the three months ended June 30, 2021 and 2020, respectively, and $14.9 million and $2.2 million for the six months ended June 30, 2021 and 2020, respectively. Included in stock-based compensation expense are profits distributions to holders of Class B Units of $0.3 million for the six months ended June 30, 2021.

We expect that our sales and marketing expense will increase in absolute dollars and continue to be our largest operating expense for the foreseeable future as we expand our sales and marketing efforts. However, because we incur sales and marketing expenses up front when we launch campaigns to drive sales, while we recognize net revenue ratably over the underlying subscription term, we expect that our sales and marketing expense will fluctuate as a percentage of our net revenue over the long term. Sales and marketing expenses may fluctuate further as a result of acquisitions, joint ventures, or other strategic transactions we undertake in the future.

Research and Development

Research and development expenses consist primarily of payroll and related costs, technical services, software expenses, and hosting expenses. Research and development expenses are exclusive of depreciation and amortization shown as a separate line item.

We expect that our research and development expense will increase in absolute dollars as its business grows, including as a result of new acquisitions, joint ventures, and other strategic transactions, particularly as we incur additional costs related to continued investments in our platform.

General and Administrative

General and administrative expenses consist primarily of payroll and related costs associated with our finance, legal, information technology, human resources, executive, and administrative personnel, legal fees, corporate insurance, office expenses, professional fees, and travel and entertainment costs.

Within general and administrative expenses are stock-based compensation expenses related to the Class B Units of $36.0 million and $62.5 million for the three months ended June 30, 2021 and 2020, respectively, and $508.7 million and $78.7 million for the six months ended June 30, 2021 and 2020, respectively. These amounts includes profit distributions to holders of Class B Units of $0.3 million, $4.5 million, $4.6 million and $30.8 million, respectively.

Following the completion of the Transactions, we expect to incur additional general and administrative expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. General and administrative expenses may fluctuate further as a result of acquisitions, joint ventures, or other strategic transactions we undertake in the future.

Depreciation and Amortization

Depreciation and amortization expenses consist of amortization of trade names, customer relationship intangibles, and software development costs, as well as depreciation on other property and equipment such as leasehold improvements, furniture and fixtures, and computer equipment. We expect depreciation and amortization expenses to increase on an absolute dollar basis as our business grows, including as a result of new acquisitions, joint ventures, and other strategic transactions, but to remain generally consistent as a percentage of total net revenue.

Related Party Expense

Related party expenses primarily consist of expenses for certain corporate functions performed by a related party for certain historic periods, as well as revenue share expenses. We have built our own corporate infrastructure and do not expect non-revenue share expenses from this related party in the future.

Other Income (Expense), Net

Other income, net primarily consists of the net gains on our embedded derivative instruments and on sales of cryptocurrencies.

Interest Income, Net

Interest income, net primarily consists of interest income from our money market accounts, as well as interest expense on outstanding borrowings under the Credit Facility (as defined below) with a related-party. See “—Liquidity and Capital Resources—Credit Facility.”

Results of Operations

The following table sets forth our results of operations for the periods presented:

(In thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net revenue	$ 141,884	$ 81,905	$ 261,225	$ 157,739
Related party revenue	246	890	619	1,438
Total net revenue	142,130	82,795	261,844	159,177
Operating expenses:				
Cost of revenue(1)(2)	26,826	27,477	159,638	42,158
Sales and marketing(1)(2)	56,926	49,241	148,711	89,573
General and administrative(1)(2)	64,661	84,498	572,090	120,951
Research and development(1)(2)	1,927	1,190	3,705	2,217
Depreciation and amortization	696	662	1,447	1,273
Related party expense	27	(17)	47	32
Total operating expenses	151,063	163,051	885,638	256,204
Loss from operations	(8,933)	(80,256)	(623,794)	(97,027)
Other income (expense), net	530	(1,067)	303	(863)
Interest income, net	7	367	12	472
Net loss	(8,396)	(80,956)	(623,479)	(97,418)
Net loss attributable to non-controlling interests	(501)	(911)	(1,131)	(872)
Net loss attributable to MarketWise	$ (7,895)	$ (80,045)	$ (622,348)	$ (96,546)

(1) Included within cost of revenue, sales and marketing, and general and administrative expenses are stock-based compensation expenses as follows:

(In thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Vested Class B Units and change in fair value of Class B liability awards	$ 46,989	$ 72,870	$ 642,413	$ 61,054
Profits distributions to holders of Class B Units	456	5,757	6,107	38,070
Total stock-based compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

(2) Cost of revenue, sales and marketing, general and administrative, and research and development expenses are exclusive of depreciation and amortization shown as a separate line item.

The following table sets forth our consolidated statements of operations data expressed as a percentage of net revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Cost of revenue(1)	18.9 %	33.2 %	61.0 %	26.5 %
Sales and marketing(1)	40.1 %	59.5 %	56.8 %	56.3 %
General and administrative(1)	45.5 %	102.1 %	218.5 %	76.0 %
Research and development(1)	1.4 %	1.4 %	1.4 %	1.4 %
Depreciation and amortization	0.5 %	0.8 %	0.6 %	0.8 %
Related party expense	— %	— %	— %	— %
Total operating expenses	106.3 %	196.9 %	338.2 %	161.0 %
Loss from operations	(6.3)%	(96.9)%	(238.2)%	(61.0)%
Other income, net	0.4 %	(1.3)%	0.1 %	(0.5)%
Interest income, net	0.0 %	0.4 %	0.0 %	0.3 %
Net loss	(5.9)%	(97.8)%	(238.1)%	(61.2)%
Net loss attributable to non-controlling interests	(0.4)%	(1.1)%	(0.4)%	(0.5)%
Net loss attributable to MarketWise	(5.6)%	(96.7)%	(237.7)%	(60.7)%

(1) Cost of revenue, sales and marketing, general and administrative, and research and development expenses are exclusive of depreciation and amortization shown as a separate line item.

Comparison of Three Months Ended June 30, 2021 and Three Months Ended June 30, 2020

Net Revenue

(In thousands)	Three Months Ended June 30,			
	2021	2020	$ Change	% Change
Net revenue	$ 142,130	$ 82,795	$ 59,335	71.7 %

Net revenue increased by $59.3 million, from $82.8 million for the three months ended June 30, 2020 to $142.1 million for the three months ended June 30, 2021. The increase in net revenue was primarily driven by a $43.4 million increase in term subscription revenue and a $16.8 million increase in lifetime subscription revenue, and a $0.9 million decrease in non-subscription revenue.

Both term and lifetime subscription revenue benefited from a significant increase in Paid Subscribers. Term subscription revenue increased as a result of a significant increase in marketing efforts. Lifetime subscription revenue, which is initially deferred and recognized over a five-year period, increased as a result of higher volume of lifetime subscriptions in current and prior years, which continued to benefit us in the second quarter of 2021.

Operating Expenses

(In thousands)	Three Months Ended June 30, 2021	2020	$ Change	% Change
Operating expenses:				
Cost of revenue	$ 26,826	$ 27,477	$ (651)	(2.4)
Sales and marketing	56,926	49,241	7,685	15.6
General and administrative	64,661	84,498	(19,837)	(23.5)
Research and development	1,927	1,190	737	61.9
Depreciation and amortization	696	662	34	5.1
Related party expenses	27	(17)	44	(258.8)
Total operating expenses	$ 151,063	$ 163,051	$ (11,988)	(7.4)

Cost of Revenue

Cost of revenue decreased by $0.7 million, from $27.5 million for the three months ended June 30, 2020 to $26.8 million for the three months ended June 30, 2021, primarily driven by a decrease of $4.5 million in stock-based compensation expense related to holders of Class B Units, partially offset by an increase of $1.5 million in credit card fees due to higher sales volume, an increase of $1.5 million in payroll and payroll-related costs due to higher headcount, and an increase of $0.5 million in outside labor expense primarily related to supporting sales growth.

Approximately $3.4 million of the decrease in stock-based compensation expense was due to the higher relative change in fair value of the Class B Units in the second quarter of the prior year compared to current year, as a result of strong prior year results. The remaining decrease in stock-based compensation expense was due to lower Class B Unit distributions of $1.1 million.

Sales and Marketing

Sales and marketing expense increased by $7.7 million, from $49.2 million for the three months ended June 30, 2020 to $56.9 million for the three months ended June 30, 2021, primarily driven by a $10.6 million increase in amortization of deferred contract acquisition costs, a $1.7 million increase in payroll and payroll-related costs due to higher headcount, partially offset by a $4.8 million decrease in direct marketing and lead-generation expenses.

General and Administrative

General and administrative expense decreased by $19.8 million, from $84.5 million for the three months ended June 30, 2020 to $64.7 million for the three months ended June 30, 2021, primarily driven by a decrease of $26.5 million in stock-based compensation expense related to holders of Class B Units, a $1.7 million decrease related to change in fair value of derivatives, partially offset by a $3.7 million increase in incentive compensation and profit interest expenses, an increase of $1.7 million in payroll and payroll-related costs due to increased headcount to support operations, a $1.5 million increase in cloud computing and software fees due to increases in transaction volumes and telecom costs partially attributable to COVID-19 restrictions, and a $0.7 million increase in travel and entertainment expenses.

Approximately $22.0 million of the decrease in stock-based compensation expense was due to the higher relative change in fair value of the Class B Units in the second quarter of the prior year compared to current year, as a result of strong prior year results. The remaining decrease in stock-based compensation expense was due to lower Class B Unit distributions of $4.2 million and lower expense related to the vesting of additional Class B Units of $0.4 million.

Adjusted CFFO

(In thousands)	Three Months Ended June 30,			
	2021	2020	$ Change	% Change
Adjusted CFFO	$ 59,370	$ 37,341	$ 22,029	59.0
Adjusted CFFO Margin	32.1 %	30.3 %		

Adjusted CFFO increased by $22.0 million, from $37.3 million for the three months ended June 30, 2020 to $59.4 million for the three months ended June 30, 2021, primarily driven by an increase of $62.0 million in Billings at an Adjusted CFFO Margin of 32.1%.

Comparison of Six Months Ended June 30, 2021 and Six Months Ended June 30, 2020

Net Revenue

(In thousands)	Six Months Ended June 30,			
	2021	2020	$ Change	% Change
Net revenue	$ 261,844	$ 159,177	$ 102,667	64.5 %

Net revenue increased by $102.7 million, from $159.2 million for the six months ended June 30, 2020 to $261.8 million for the six months ended June 30, 2021. The increase in net revenue was primarily driven by a $74.7 million increase in term subscription revenue and a $27.9 million increase in lifetime subscription revenue.

Both term and lifetime subscription revenue benefited from a significant increase in Paid Subscribers. Term subscription revenue increased as a result of a significant increase in marketing efforts. Lifetime subscription revenue, which is initially deferred and recognized over a five-year period, increased as a result of higher volume of lifetime subscriptions in current and prior years, which continued to benefit us in the second quarter of 2021.

Operating Expenses

(In thousands)	Six Months Ended June 30,			
	2021	2020	$ Change	% Change
Operating expenses:				
Cost of revenue	$ 159,638	$ 42,158	$ 117,480	278.7 %
Sales and marketing	148,711	89,573	59,138	66.0 %
General and administrative	572,090	120,951	451,139	373.0 %
Research and development	3,705	2,217	1,488	67.1 %
Depreciation and amortization	1,447	1,273	174	13.7 %
Related party expenses	47	32	15	46.9 %
Total operating expenses	$ 885,638	$ 256,204	$ 629,434	245.7 %

Cost of Revenue

Cost of revenue increased by $117.5 million, from $42.2 million for the six months ended June 30, 2020 to $159.6 million for the six months ended June 30, 2021, primarily driven by an increase of $106.7 million in stock-based compensation expense related to holders of Class B Units, $4.7 million in credit card fees due to higher sales volume, an increase of $2.6 million in payroll and payroll-related costs due to higher headcount, and increases of $1.6 million and $1.4 million in freelance editorial expense and outside labor expense, respectively, primarily related to supporting sales growth.

Approximately $102.5 million of the increase in stock-based compensation expense was due to the increase in fair value as a result of a higher probability assigned to the market approach due to the signing of a letter of intent with ADAC during December 2020. The remaining increase in stock-based compensation expense was due to the vesting of additional Class B Units of $10.2 million, partially offset by lower Class B Unit distributions of $6.1 million.

Sales and Marketing

Sales and marketing expense increased by $59.1 million, from $89.6 million for the six months ended June 30, 2020 to $148.7 million for the six months ended June 30, 2021, primarily driven by a $23.6 million increase in direct marketing and lead-generation expenses, a $19.5 million increase in amortization of deferred contract acquisition costs, a $12.7 million increase in stock-based compensation expense related to holders of Class B Units, and a $3.3 million increase in payroll and payroll-related costs due to higher headcount.

Approximately $7.2 million of the increase in stock-based compensation expense was due to the increase in fair value as a result of a higher probability assigned to the market approach due to the signing of a letter of intent with ADAC during December 2020. The remaining increase in stock-based compensation expense was due to the vesting of additional Class B Units of $5.1 million, and higher Class B Unit distributions of $0.3 million.

General and Administrative

General and administrative expense increased by $451.1 million, from $121.0 million for the six months ended June 30, 2020 to $572.1 million for the six months ended June 30, 2021, primarily driven by an increase of $430.0 million in stock-based compensation expense related to holders of Class B Units, $9.8 million increase in incentive compensation and profit interest expenses, a $5.7 million increase in accounting, legal, and consulting fees related to public company readiness efforts, an increase of $3.8 million in payroll and payroll-related costs due to increased headcount to support operations, and a $2.7 million increase in cloud computing and software fees due to increases in transaction volumes and license fees associated with higher headcount, partially offset by a $1.7 million decrease related to change in fair value of derivatives.

Approximately $439.0 million of the increase in stock-based compensation expense was due to the increase in fair value as a result of a higher probability assigned to the market approach due to the signing of a letter of intent with ADAC during December 2020. The remaining increase in stock-based compensation expense was due to the vesting of additional Class B Units of $17.2 million, partially offset by lower Class B Unit distributions of $26.2 million.

Adjusted CFFO

(In thousands)	**Six Months Ended June 30,**			
	2021	**2020**	**$ Change**	**% Change**
Adjusted CFFO	$ 157,325	$ 63,269	$ 94,056	148.7 %
Adjusted CFFO Margin	35.7 %	26.3 %		

Adjusted CFFO increased by $94.1 million, from $63.3 million for the six months ended June 30, 2020 to $157.3 million for the six months ended June 30, 2021, primarily driven by an increase of $199.8 million in Billings at an Adjusted CFFO Margin of 35.7%.

Liquidity and Capital Resources

General

As of June 30, 2021, our principal sources of liquidity were cash, cash equivalents, and restricted cash of $242.0 million. Cash and cash equivalents comprise bank deposits, money market funds, and certificates of deposit. Restricted cash comprises reserves held with credit card processors for chargebacks and refunds. We have financed our operations primarily through cash received from operations, and our sources of liquidity have enabled us to make continued investments in supporting the growth of our business. We have also historically leveraged the Credit Facility to fund our acquisitions. Following the completion of the Transactions, we expect that our operating cash flows, in addition to cash on hand, will enable us to continue to make investments in the future. We expect our operating cash flows to further improve as we increase our operational efficiency and experience economies of scale.

We believe that our existing cash and cash equivalents and cash flow from operations will be sufficient to support working capital and capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our subscription growth rate, subscription renewal activity, including the timing and the amount of cash received from subscribers, the pace of expansion of sales and marketing activities, the timing and extent of spending to support development efforts, the introduction of new and enhanced products, and the level of costs to operate as a public company following the Transactions. We may, in the future, enter into arrangements to acquire or invest in complementary businesses, products, and technologies.

We may be required to seek additional equity or debt financing. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, operations, and financial condition.

A substantial source of our cash is from our deferred revenue, which is included in the liabilities section of our consolidated balance sheets. Deferred revenue consists of the unearned portion of customer billings, which is recognized as net revenue in accordance with our revenue recognition policy. As of June 30, 2021, we had deferred revenue of $707.5 million, of which $324.7 million was recorded as a current liability and is expected to be recognized as net revenue over the next 12 months, provided all other revenue recognition criteria have been met.

As a result of the Transactions, we will incur public company expenses related to our operations, *plus* payment obligations under the Tax Receivable Agreement, which we expect to be significant. MarketWise, Inc. intends to cause MarketWise, LLC to make distributions to MarketWise, Inc. in an amount sufficient to allow MarketWise, Inc. to pay its tax obligations and operating expenses, including distributions to fund any payments due under the Tax Receivable Agreement.

Furthermore, following consummation of the Transactions and to the extent we have taxable income, we will make distributions to the MarketWise Members in amounts sufficient for the MarketWise Members to pay taxes due on their share of MarketWise income at prevailing individual income tax rates. Such amounts will be reflected in MarketWise, Inc.'s statement of cash flows as cash used in financing activities, and so will not decrease the amount of cash from operations or net income reflected in MarketWise, Inc.'s financial statements. However, such distributions will decrease the amount of cash available to us for use in its business.

<u>Tax Receivable Agreement</u>

MarketWise, Inc. intends, as MarketWise, LLC's sole manager, to cause MarketWise, LLC to make cash distributions to MarketWise, Inc. in an amount sufficient to cover MarketWise, Inc.'s obligations under the Tax Receivable Agreement. However, MarketWise, LLC's ability to make such distributions to MarketWise, Inc. may be subject to various limitations and restrictions, such as restrictions on distributions under contracts or agreements to which MarketWise, LLC is then a party, including debt agreements, or any applicable law, or that would have the effect of rendering MarketWise, LLC insolvent. If MarketWise, LLC does not have sufficient cash to fund distributions to MarketWise, Inc. in amounts sufficient to cover MarketWise, Inc.'s obligations under the Tax Receivable Agreement, it may have to borrow funds, which could materially adversely affect its liquidity and financial condition and subject it to various restrictions imposed by any such lenders. To the extent that MarketWise, Inc. is unable to make timely payments under the Tax Receivable Agreement for any reason, the unpaid amounts will be deferred and will accrue interest until paid. MarketWise, Inc.'s failure to make any payment required under the Tax Receivable Agreement (including any accrued and unpaid interest) within 90 calendar days of the date on which the payment is required to be made will constitute a material breach of a material obligation under the Tax Receivable Agreement, which will terminate the Tax Receivable Agreement and accelerate future payments thereunder, unless the applicable payment is not made because (i) MarketWise, LLC is prohibited from making such payment under the terms of the Tax Receivable Agreement or the terms governing certain of its indebtedness or (ii) MarketWise, LLC does not have, and despite using commercially reasonable efforts cannot obtain, sufficient funds to make such payment. See the descriptions of the Tax Receivable Agreement and MarketWise Third A&R Operating Agreement in the Original Report for additional information. Any payments made by MarketWise, Inc. to the MarketWise Members under the Tax Receivable Agreement will not be available for reinvestment in the business and will generally reduce the amount of cash that might have otherwise been available to MarketWise, Inc. and its subsidiaries.

The Tax Receivable Agreement provides that if (i) MarketWise, Inc. materially breaches any of its material obligations under the Tax Receivable Agreement, (ii) certain mergers, asset sales, other forms of business combinations, or other changes of control were to occur, or (iii) MarketWise, Inc. elects an early termination of the Tax Receivable Agreement, then MarketWise, Inc.'s future obligations, or its successor's future obligations, under the Tax Receivable Agreement to make payments thereunder would accelerate and become due and payable, based on certain assumptions, including an assumption that MarketWise, Inc. would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the Tax Receivable Agreement, and an assumption that, as of the effective date of the acceleration, any MarketWise Member that has Common Units not yet exchanged shall be deemed to have exchanged such Common Units on such date, even if MarketWise, Inc. does not receive the corresponding tax benefits until a later date when the Common Units are actually exchanged. As a result of the foregoing, MarketWise, Inc. would be required to make an immediate cash payment equal to the estimated present value of the anticipated future tax benefits that are the subject of the Tax Receivable Agreement, based on certain assumptions, which payment may be made significantly in advance of the actual realization, if any, of those future tax benefits and, therefore, MarketWise, Inc. could be required to make payments under the Tax Receivable Agreement that are greater than the specified percentage of the actual tax benefits it ultimately realizes. Based on the foregoing and assuming no material changes in the relevant tax law and that there is no change in the price of the MarketWise, Inc. Class A common stock, if we were to elect to terminate the Tax Receivable Agreement one year after the closing of the Transactions, we estimate that we would be required to pay approximately $887 million in the aggregate under the Tax Receivable Agreement. In these situations, MarketWise, Inc.'s obligations under the Tax Receivable Agreement could have a substantial negative impact on MarketWise, Inc.'s liquidity and could have the effect of delaying, deferring, or preventing certain mergers, asset sales, other forms of business combinations, or other changes of control. There can be no assurance that MarketWise, LLC will be able to fund or finance MarketWise, Inc.'s obligations under the Tax Receivable Agreement.

Assuming no material changes in the relevant tax law and that MarketWise, Inc. earns sufficient taxable income to realize all tax benefits that are subject to the Tax Receivable Agreement, the tax savings associated with the purchase of Common Units in connection with the Transactions, together with future redemptions or exchanges of all remaining Common Units not owned by MarketWise, Inc. pursuant to the MarketWise Third A&R Operating Agreement as described above, are expected to aggregate to approximately $1,155 million over 20 years from the date of the Transactions assuming all future redemptions or exchanges would occur one year after the closing of the Transactions and that there is no change in the price of the MarketWise, Inc. Class A common stock since the Transactions. Under such scenario, assuming future payments are made on the date each relevant tax return is due, without extensions, MarketWise, Inc. would be required to pay approximately 85% of such amount, or approximately $982 million, over the 20-year period from the date of the Transactions.

Credit Facility

On December 31, 2013, we entered into a secured uncommitted credit agreement (the "Credit Facility") with a related party, secured by a first priority lien on all our assets. During the year ended December 31, 2020, we repaid all amounts outstanding under the Credit Facility. In February 2021, the Credit Facility was terminated.

We are currently in the early stages of evaluating the establishment of a new committed credit facility.

Cash Flows

The following table presents a summary of our consolidated cash flows provided by (used in) operating, investing, and financing activities for the periods indicated:

(In thousands)	Six Months Ended June 30,	
	2021	2020
Net cash provided by operating activities	$ 151,218	$ 25,199
Net cash (used in) provided by investing activities	(8,078)	(9,378)
Net cash (used in) financing activities	(15,934)	(67,949)

Operating Activities

For the six months ended June 30, 2021, net cash provided by operating activities was $151.2 million, primarily due to net loss of $623.5 million adjusted for non-cash charges of $642.9 million and net changes in our operating assets and liabilities of $131.8 million. The non-cash adjustments primarily related to stock-based compensation expenses of $642.4 million, which was driven by the increase in fair value as a result of a higher probability assigned to the market approach due to the signing of a letter of intent with ADAC during December 2020, and the granting and vesting of certain Class B Units. The changes in operating assets and liabilities were primarily driven by an increase in deferred revenue of $172.8 million due to our overall increase in sales, and an increase in accrued expenses of $32.9 million, partially offset by a net increase in deferred contract acquisition costs of $74.3 million.

For the six months ended June 30, 2020, net cash provided by operating activities was $25.2 million, primarily due to net loss of $97.4 million and non-cash charges of $64.8 million, and partially offset by net changes in our operating assets and liabilities of $57.8 million. The non-cash adjustments primarily related to stock-based compensation income of $61.1 million, which was driven by the decrease in fair value of the Class B Units. The changes in operating assets and liabilities were primarily driven by an increase in deferred revenue of $78.3 million due to our overall increase in sales, partially offset by a net increase in deferred contract acquisition costs of $22.1 million.

Investing Activities

For the six months ended June 30, 2021, net cash used in investing activities was $8.1 million, primarily driven by the payment of $7.1 million related to the acquisition of Chaikin, and $0.9 million to acquire intangible assets.

For the six months ended June 30, 2020, net cash used in investing activities was $9.4 million, primarily driven by the payment of $9.2 million to acquire the noncontrolling interest of TradeSmith, and $0.2 million for property and equipment.

Financing Activities

For the six months ended June 30, 2021, net cash used in financing activities was $15.9 million, primarily due to $15.1 million in distributions to members and $0.8 million in distributions to non-controlling interests.

For the six months ended June 30, 2020, net cash used in financing activities was $67.9 million, primarily due to $66.1 million in distributions to members, $5.4 million repayment of borrowings under the Credit Facility, and $0.4 million in distributions to non-controlling interests.

Critical Accounting Policies and Significant Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

Management believes that, of our significant accounting policies, which are described in Note 2 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies management believes are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

We primarily earn revenue from services provided in delivering subscription-based financial research, publications, and SaaS offerings to individual subscribers through our online platforms using the five-step method described in Note 2 to our consolidated financial statements.

Subscription revenues are recognized evenly over the duration of the subscriptions, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. Subscribers are typically billed in advance of the subscriptions. The key estimates related to our revenue recognition are related to our estimated customer lives for our lifetime subscriptions, determination of standalone selling prices, and the amortization period for our capitalized contract costs.

We also offer lifetime subscriptions where we receive an upfront payment upon entering into the contract and receive a lower amount annually thereafter. Certain upfront fees on lifetime subscriptions are paid in installments over a 12-month period and, from time to time, over multiple years. We recognize revenue related to lifetime subscriptions over the estimated customer lives, which is five years. Management has determined the estimated life of lifetime customers based on historic customer attrition rates. The estimated life of lifetime customers was five years for each of the three- and six-month periods ended June 30, 2021 and 2020, and for each of the years ended December 31, 2020, 2019, and 2018.

Our contracts with subscribers may include multiple performance obligations if subscription services are sold with other subscriptions, products, or events within one contract. For such contracts, we allocate net revenues to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to subscribers on a standalone basis.

We capitalize incremental costs that are directly related to the acquisition or renewal of customer contracts, to the extent that the costs are expected to be recovered and if we expect the benefit of these costs to be longer than one year. We have elected to utilize the practical expedient and expense costs to obtain a contract with a subscriber when the expected benefit period is one year or less. Our capitalizable incremental costs include sales commissions to employees and fees paid to marketing vendors that are generally calculated as a percentage of the customer sale. We also capitalize revenue share fees that are payable to other companies, including related parties, who share their customer lists with us for each successful sale we make to a customer from their list. Capitalized costs are amortized on a straight-line basis over the shorter of the expected customer life and the expected benefit related directly to those costs, which is approximately four years. The amortization period for contract costs was approximately four years for each of the three- and six-month periods ended June 30, 2021 and 2020, and for each of the years ended December 31, 2020, 2019, and 2018.

Transactions and Valuation of Goodwill and Other Acquired Intangible Assets

When we acquire a business, we allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values as of the acquisition date. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing assets acquired and liabilities assumed include, but are not limited to, future expected cash flows from acquired customers, trade names, acquired technology from a market participant perspective, and determining useful lives and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. While management believes the assumptions and estimates it has made in the past have been appropriate, they are inherently uncertain and subject to refinement. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings. We did not have significant measurement period adjustments during the three- and six-month periods ended June 30, 2021 and 2020 and during the years December 31, 2020, 2019, and 2018.

Stock-Based Compensation

Historically, we granted Class B Units to certain key employees. The Class B Units are classified as liabilities as opposed to equity and remeasured to fair value at the end of each reporting period until settlement into equity, with the change in value being charged to stock-based compensation expense. Because the Class B Units are classified as liabilities on our consolidated balance sheet, all profits distributions made to the holders of the Class B Units are considered to be stock-based compensation expenses. Expense is recognized using the greater of the expenses as calculated based on (i) the legal vesting of the underlying units and (ii) a straight-line basis.

Because our Class B Units are not publicly traded, we must estimate the fair value of our Class B Units. Historically, the fair values of Class B Units were estimated by our board of managers based on our equity value. Our board of managers considered, among other things, contemporaneous valuations of our equity value prepared by an unrelated third-party valuation firm in accordance with the guidance provided by the American Institute of Certified Public Accountants Practice Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. To estimate the fair value of the Class B Units, a two-step valuation approach is used. First our equity value is estimated using a market approach and a discounted cash flow approach by projecting our net cash flows into the future and discounting these cash flows to present value by applying a market discount rate. This calculated equity value is then allocated to the common units outstanding using an option pricing model by determining the distributions available to unit holders in a hypothetical liquidation. Our board of managers exercised reasonable judgment and considered several objective and subjective factors to determine the best estimate of the fair value of our Class B Units, including:

- our historical and expected operating and financial performance;
- current business conditions;
- our stage of development and business strategy;
- macroeconomic conditions;
- our weighted average cost of capital;
- risk-free rates of return;
- the volatility of comparable publicly traded peer companies; and
- the lack of an active public market for our equity units.

Upon consummation of the Transactions, the vesting of all outstanding awards was accelerated and each Class B Unit was exchanged for Common Units in MarketWise, LLC.

Recently Issued Accounting Pronouncements

See the section titled “Summary of Significant Accounting Policies” in Note 2 of the notes to our consolidated financial statements included in the Original Report for more information.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily include:

Credit Risk

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. We had cash and cash equivalents of $241.5 million and $114.4 million as of June 30, 2021 and December 31, 2020, respectively, which consisted of bank deposits, money market accounts, and certificates of deposit. We hold cash with federally insured financial institutions that often exceed federally insured limits. We manage our credit risk by concentrating our cash deposits with high-quality financial institutions and periodically evaluating the credit quality of those institutions.

Interest Rate Risk

Cash and cash equivalents are held primarily for working capital purposes. These interest-earning instruments are subject to interest rate risk. To date, fluctuations in interest income have not been significant. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes and has not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 1% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

We also historically have had exposure in changing interest rates in connection with the Credit Facility. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors. and other factors beyond our control. In June 2020, we repaid all amounts outstanding under the Credit Facility. As such, a hypothetical 1% increase or decrease in market interest rates during the six-month period ending June 30, 2020 would not result in a material change to our consolidated financial statements.

Currency Exchange Risk

We do not believe that foreign currency exchange has had a material effect on our business, results of operations, or financial condition. As the impact of foreign currency exchange rates has not been material to our historical results of operations, we have not entered into foreign currency derivative or hedging transactions, but may do so in the future if our exposure to foreign currency becomes more significant.

Inflation Risk

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition. However, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset higher costs through price increases, and our inability or failure to do so could potentially harm our business, financial condition, and results of operations.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Capitalized terms used, but not defined, herein have the meaning assigned to them in the Original Report. Unless the context otherwise requires, the "Company," "we," "us," or "our" refers to MarketWise, Inc. and its subsidiaries after the Closing, and Ascendant Digital Acquisition Corp. prior to the Closing.

Introduction

The following unaudited pro forma condensed consolidated financial information has been prepared in accordance with Article 11 of Regulation S-X under the Securities Act. The following unaudited pro forma condensed consolidated financial statements present the combination of the financial information of ADAC and MarketWise, LLC, adjusted to give effect to the Transactions, including:

- the reverse recapitalization between ADAC and MarketWise, LLC, whereby no goodwill or other intangible assets are recorded;
- the consummation of the PIPE Investment pursuant to the Subscription Agreements; and
- the effectiveness of the Tax Receivable Agreement.

ADAC was a blank check company formed for the purpose of effecting a merger, share exchange, asset acquisition, share purchase, reorganization, or other similar business combination with one or more businesses. ADAC was incorporated in the Cayman Islands on February 11, 2020. On July 28, 2020, ADAC consummated its initial public offering of 41,400,000 units, including 5,400,000 units that were issued pursuant to the underwriters' full exercise of their over-allotment option. The units were sold at a price of $10.00 per unit, generating gross proceeds to ADAC of $414,000,000. Simultaneously with the consummation of the initial public offering, ADAC completed the private sale of 10,280,000 private placement warrants at a purchase price of $1.00 per warrant to the Sponsor, generating gross proceeds to ADAC of $10,280,000. The 20,700,000 public warrants issued in the ADAC units and the 10,280,000 private placement warrants were each exercisable for one ADAC Class A ordinary share at an exercise price of $11.50. Following the initial public offering, including the exercise of the over-allotment option, and the sale of the private placement warrants, a total of $414,000,000 was placed in the Trust Account. At the close of the Transactions, immediately prior to the effect of redemptions, there was approximately $414,270,280 held in the Trust Account. ADAC had 24 months from the closing of its initial public offering (by July 28, 2022) to complete an initial business combination.

MarketWise, LLC was organized in the State of Maryland as a limited liability company on January 30, 2013. It was reorganized in the State of Florida as a limited liability company effective May 1, 2015 and, effective February 26, 2021, was reorganized in the State of Delaware as a limited liability company. MarketWise is a leading multi-brand platform of subscription businesses that provides premium financial research, software, education, and tools for self-directed investors. MarketWise offers a comprehensive portfolio of high-quality, independent investment research, as well as several software and analytical tools, on a subscription basis.

The unaudited pro forma condensed consolidated balance sheet as of June 30, 2021 combines the historical balance sheets of ADAC and MarketWise, LLC on a pro forma basis as if the Transactions and related transactions had been consummated on June 30, 2021. The unaudited pro forma condensed consolidated statement of operations for the six months ended June 30, 2021 combines the historical statements of operations of ADAC and MarketWise, LLC for such period on a pro forma basis as if the Transactions and related transactions had been consummated on January 1, 2020.

The unaudited pro forma condensed consolidated financial statements have been presented for illustrative purposes only and do not necessarily reflect what MarketWise's financial condition or results of operations would have been had the Transactions occurred on the dates indicated. Further, the pro forma condensed consolidated financial information may not be useful in predicting the future financial condition and results of operations of MarketWise. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The historical financial information of ADAC was derived from the unaudited financial statements of ADAC as of and for the six months ended June 30, 2021, which are incorporated by reference into the Amendment. The historical financial information of MarketWise was derived from the unaudited financial statements of MarketWise, LLC as of and for the six months ended June 30, 2021, which are incorporated by reference into the Amendment. This information should be read together with ADAC's and MarketWise, LLC's audited consolidated financial statements and related notes, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" or ADAC and MarketWise, LLC and other financial information incorporated by reference into the Amendment and the Original Report.

We expect the Transactions to be accounted for akin to a reverse recapitalization in accordance with GAAP. The Transactions do not result in a change in control of MarketWise, LLC as Monument & Cathedral controls both MarketWise, LLC and MarketWise through its rights to (x) nominate the majority of the members of the board of directors of MarketWise, LLC under MarketWise, LLC's existing operating agreement and (y) through its control of MarketWise, LLC prior to Closing, seven of the nine directors to be appointed to the board of directors of MarketWise effective upon the Closing. Under the guidance in ASC 805 for transactions between entities under common control, the assets, liabilities, and non-controlling interests of MarketWise, LLC and ADAC are recognized at their carrying amounts on the date of the Transactions.

The historical financial information has been adjusted to give pro forma effect for certain transaction accounting adjustments to provide relevant information necessary for an accurate understanding of the combined company upon consummation of the Transactions, Domestication, and PIPE Investment. The unaudited pro forma condensed consolidated financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Transactions.

Description of the Transactions

On March 1, 2021, ADAC entered into the Transaction Agreement with MarketWise, LLC and the Existing MarketWise Equityholders. Pursuant to the Transaction Agreement, prior to the Closing, ADAC (i) consummated the Domestication, by virtue of which each then issued and outstanding ADAC Class B ordinary share converted automatically into an ADAC Class A ordinary share, and immediately thereafter each then issued and outstanding ADAC Class A ordinary share converted automatically, on a one-to-one basis, into a share of MarketWise Class A common stock, (ii) entered into the Certificate of Incorporation to, among other things, (a) change the name of "Ascendant Digital Acquisition Corp." to "MarketWise, Inc.," (b) convert all then-outstanding ADAC Class A ordinary shares and ADAC Class B ordinary shares into MarketWise Class A common stock, and (c) authorize the issuance of MarketWise Class B common stock, (iii) adopted the Bylaws, and (iv) entered into the Tax Receivable Agreement with MarketWise, LLC and the Existing MarketWise Equityholders.

Additionally, at the Closing, the Existing MarketWise Equityholders, MarketWise, and MarketWise, LLC entered into the MarketWise Third A&R Operating Agreement, which, among other things, (i) restructured the capitalization of MarketWise, LLC to (a) authorized the issuance of MarketWise Units to MarketWise and (b) reclassify the existing units of MarketWise, LLC held by the MarketWise Members into MarketWise Units on a one-for-one basis and (ii) appointed MarketWise as the managing member of MarketWise, LLC.

Following the consummation of the transactions contemplated by the Transaction Agreement, MarketWise is organized in an "Up-C" structure whereby the MarketWise Members received a class of non-economic common stock (MarketWise Class B common stock) in MarketWise while retaining economic interests in MarketWise, LLC that are exchangeable for MarketWise Class A common stock or redeemable for cash. When a holder of MarketWise Class B common stock exchanges MarketWise Units for shares of MarketWise Class A common stock or redeems such MarketWise Units for cash, a number of shares of MarketWise Class B common stock equal to the number of such MarketWise Units will be immediately retired and will no longer be outstanding.

The consideration received by the Existing MarketWise Equityholders consisted entirely of equity consideration of 291,092,300 MarketWise Units (and accompanying shares of MarketWise Class B common stock) valued at $291,092,300 based on a $2.9 billion equity value.

The following summarizes the pro forma combined ownership of MarketWise common stock as of immediately following the consummation of the Transactions, assuming the earnout contingency relating to the Sponsor Earn Out Shares and MarketWise Management Member Earn Out Shares has not yet been met:

Shareholder	No. of Shares(3)	% Ownership
Existing MarketWise Equityholders(1)(2)	291,092,300	92.10 %
Public shareholders	2,653,096	0.84 %
Initial Shareholders(2)	7,299,000	2.31 %
PIPE Investors	15,000,000	4.75 %
Total	316,044,396	100.00 %

(1) The Existing MarketWise Equityholders hold one share of MarketWise Class B common stock for each MarketWise Unit held by such Existing MarketWise Equityholder. The MarketWise Class B common stock has the same voting rights as the MarketWise Class A common stock but no economic rights.
(2) Excludes 3,051,000 Sponsor Earn Out Shares and up to 2,000,000 MarketWise Management Member Earn Out Shares, as the earnout contingency has not yet been met.
(3) Excludes shares of MarketWise Class A common stock issuable upon exercise of 20,700,000 public warrants and 10,280,000 private placement warrants.

The pro forma adjustments reflecting the consummation of the Transactions are based on certain currently available information and certain assumptions and methodologies that we believe are reasonable under the circumstances. The unaudited condensed pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the difference may be material. We believe that our assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Transactions based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed consolidated financial information.

The unaudited pro forma condensed consolidated financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Transactions taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical financial statements and notes thereto of ADAC and MarketWise.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Six Months Ended June 30, 2021
(In thousands, except per share information)

	MarketWise, LLC (Historical)		ADAC (Historical)	Transaction Adjustments		MarketWise Pro Forma
Net revenue	$ 261,225		$ —	$ —		$ 261,225
Related party revenue	619		—	—		619
Total net revenue	261,844		—	—		261,844
Operating expenses:						
Cost of revenue	159,638	(bb)	—	56,356	(bb)	215,994
Sales and marketing	148,711	(bb)	—	6,727	(bb)	155,438
General and administrative	572,090	(bb)	3,410	229,498	(bb)	801,588
				(3,410)	(dd)	
Research and development	3,705		—	—		3,705
Depreciation and amortization	1,447		—	—		1,447
Related party expense	47		60	(60)	(dd)	47
Total operating expenses	885,638		3,470	289,111		1,178,219
Loss from operations	(623,794)		(3,470)	(289,111)		(916,375)
Other (expense) income, net	303		—	—		303
Change in fair value of derivative warrant liabilities	—		3,304	—		3,304
Interest income, net	12		59	(59)	(aa)	12
Net (loss) income before income taxes	(623,479)		(107)	(289,170)		(912,756)
Income tax benefit	—		—	(550)	(cc)	(550)
Net (loss) income	(623,479)		(107)	(289,720)		(913,306)
Net loss attributable to non-controlling interest	(1,131)		—	(842,689)	(ee)	(843,820)
Net (loss) income attributable to MarketWise, Inc.	$ (622,348)		$ (107)			$ (69,486)
Loss per share:						
Weighted average shares outstanding, basic and diluted						24,952
Basic and diluted loss per share						$ (2.78)

Included in cost of revenue, sales and marketing, and general and administrative expenses are stock-based compensation expenses as follows:

	MarketWise, LLC (Historical)	ADAC (Historical)	Transaction Adjustments		MarketWise Pro Forma
Cost of revenue	$ 124,916	$ —	$ 56,356	(bb)	$ 181,272
Sales and marketing	14,910	—	6,727	(bb)	21,637
General and administrative	508,694	—	229,498	(bb)	738,192
Total stock-based compensation expense	$ 648,520	$ —	$ 292,581		$ 941,101

Change in fair value	$ 598,533	$ —	$ 219,511 (bb)	$ 818,044
Vested units	43,880	—	73,070 (bb)	116,950
Distributions	6,107	—	— (bb)	6,107
Total stock-based compensation expense	$ 648,520	$ —	$ 292,581	$ 941,101

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2021

(*In thousands*)

	MarketWise, LLC (Historical)	MarketWise, LLC Pro Forma Adjustments		MarketWise, LLC Pro Forma	ADAC (Historical)	Transaction Adjustments		MarketWise Pro Forma
Assets								
Current assets:								
Cash and cash equivalents	$ 241,532	$ (241,532)	(i)	$ —	$ 417	$ 414,268	(a)	$ 120,497
						150,000	(b)	
						(41,976)	(c)	
						(14,490)	(d)	
						(387,722)	(g)	
Accounts receivable, net	8,965			8,965	—			8,965
Prepaid expenses	7,911			7,911	219			8,130
Related party receivables	775			775	—			775
Related party notes receivable, current	292			292	—			292
Restricted cash	500			500	—			500
Deferred contract acquisition costs	68,548			68,548	—			68,548
Other current assets	2,087			2,087	—			2,087
Total current assets	330,610	(241,532)		89,078	636	120,080		209,794
Property and equipment, net	1,300			1,300	—			1,300
Operating lease right-of-use assets	11,826			11,826	—			11,826
Intangible assets, net	9,496			9,496	—			9,496
Goodwill	23,338			23,338	—			23,338
Deferred contract acquisition costs, noncurrent	113,029			113,029	—			113,029
Related party notes receivable, noncurrent	861			861	—			861
Other assets	715			715	—			715
Investments held in Trust Account	—			—	414,268	(414,268)	(a)	—
Total assets	**491,175**	**(241,532)**		**249,643**	**414,904**	**(294,188)**		**370,359**
Liabilities and Stockholders' Equity (Deficit)								
Current liabilities:								
Trade and other payables	4,718			4,718	275			4,993
Related party payables, net	1,231			1,231	6			1,237

Accrued expenses	65,258			65,258	2,777			68,035
Deferred revenue and other contract liabilities	324,675			324,675	—			324,675
Derivative liabilities	662			662				
Operating lease liabilities	1,223			1,223	—			1,223
Other current liabilities	24,805			24,805	—			24,805
Total current liabilities	422,572	—		422,572	3,058	—		425,630
Class B members' units	1,235,648	(1,235,648)	(m)	—	—			—
Deferred revenue and other contract liabilities, noncurrent	382,797			382,797	—			382,797
Deferred underwriting commissions	—			—	14,490	(14,490)	(d)	—
Derivative liabilities, noncurrent	1,955			1,955	50,497			52,452
Operating lease liabilities, noncurrent	7,512			7,512	—			7,512
Total liabilities	2,050,484	(1,235,648)		814,836	68,045	(14,490)		868,391
Commitments and Contingencies:	—			—	—			—
Class A ordinary shares subject to possible redemption	—			—	341,859	(341,859)	(g)	—
Stockholders' equity (deficit):								
Class A members' units	(1,552,174)	1,552,174	(k)	—	—			—
Class A ordinary shares	—			—	1	(1)	(f)	—
Class B ordinary shares	—			—	1	(1)	(e)	—
Class A common stock	—			—	—	2	(b)	3
						—	(f)	
						1	(e)	
Class B common stock	—			—	—	29	(j)	29
Additional paid-in capital	—	(241,532)	(i)	1,807,263	34,735	149,998	(b)	1,812,534
		520,567	(l)			(41,976)	(c)	
		1,528,228	(m)			1	(f)	
						(45,863)	(g)	
						(29)	(j)	
						(61,858)	(l)	
						(29,737)	(h)	
Accumulated other comprehensive loss	(118)			(118)	—			(118)
Retained earnings (accumulated deficit)	—	(1,552,174)	(k)	(1,844,754)	(29,737)	29,737	(h)	(1,844,754)
		(292,580)	(m)					
Non-controlling interest	(7,017)	(520,567)	(l)	(527,584)	—	61,858	(l)	(465,726)

Total stockholders' equity (deficit)	(1,559,309)	994,116	(565,193)	5,000	62,161	(498,032)
Total liabilities and stockholders’ equity (deficit)	**$ 491,175**	**$ (241,532)**	**$ 249,643**	**$ 414,904**	**$ (294,188)**	**$ 370,359**

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

Following consummation of the Transactions, management will perform a comprehensive review of the two entities' accounting policies. As a result of the review, management may identify differences between the accounting policies of the two entities which, when conformed, could have a material impact on the financial statements of the post-combination company. Based on its initial analysis, management has not identified differences that would have a material impact on the unaudited pro forma condensed consolidated financial information.

2. Adjustments to Unaudited Pro Forma Condensed Consolidated Financial Information

The unaudited pro forma condensed consolidated financial information has been prepared to illustrate the effect of the Transactions and has been prepared for informational purposes only.

The historical financial information has been adjusted to give pro forma effect for certain transaction accounting adjustments to provide relevant information necessary for an accurate understanding of the combined company upon consummation of the Transactions, Domestication, and PIPE Investment.

The pro forma combined provision for income taxes does not necessarily reflect the amounts that would have resulted had MarketWise filed consolidated income tax returns during the period presented.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed consolidated statement of operations are based upon the number of shares of MarketWise common stock outstanding, assuming the Transactions occurred on January 1, 2020.

Adjustments to the Unaudited Pro Forma Condensed Consolidated Statement of Operations

(aa) Reflects the elimination of interest income earned on investments held in the Trust Account.

(bb) Reflects a non-recurring additional non-cash compensation expense of $292.6 million million for the six months ended June 30, 2021 related to the acceleration of the vesting as part of the Transactions for incentive compensation units of MarketWise, LLC granted to certain key employees (the "Class B Units"). Prior to the Transactions, the Class B Units were classified as liabilities because MarketWise, LLC's existing operating agreement provided for call and put options for the Class B Units. This resulted in a requirement to expense all distributions to Class B Units, any valuation increases (non-cash) in the Class B Units, and the vesting of Class B Units (non-cash). Stock-based compensation related to the Class B Units also impacted 2021 operating expenses of MarketWise, LLC and totaled $648.5 million for the six months ended June 30, 2021. The following tables present the stock-based compensation expense included within the cost of revenue, sales and marketing, and general and administrative financial statement line items, as well as the stock-based compensation expense broken out by the change in fair value of the liability-classified Class B Units, the vesting of Class B Units, and the related cash distributions to Class B Units. Upon the consummation of the Transactions, MarketWise, LLC's existing operating agreement was replaced with the Third A&R Operating Agreement and all of MarketWise, LLC's existing units were converted into new MarketWise Units that are considered common equity, and no longer generate this type of stock-based compensation. Upon consummation of the Transactions, MarketWise implemented a traditional equity compensation plan and expects to incur greatly reduced stock-based compensation expense that will be similar to that of other public companies.

(In thousands)	MarketWise, LLC (Historical)	ADAC (Historical)	Transaction Adjustments	MarketWise Pro Forma
	Six Months Ended June 30, 2021			
Cost of revenue	$ 124,916	$ —	$ 56,356	$ 181,272
Sales and marketing	14,910	—	6,727	21,637
General and administrative	508,694	—	229,498	738,192
Total stock-based compensation expense	$ 648,520	$ —	$ 292,581	$ 941,101
Change in fair value	$ 598,533	$ —	$ 219,511	$ 818,044
Vested units	43,880	—	73,070	116,950
Distributions	6,107	—	—	6,107
Total stock-based compensation expense	$ 648,520	$ —	$ 292,581	$ 941,101

(cc) Reflects the adjustment to income tax expense as a result of the tax impact on the pro forma adjustments at the estimated effective tax rate of 2.1% for the six months ended June 30, 2021, after adjusting for additional stock-based compensation expense and the change in the fair value of the derivative warrant liabilities, which are non-deductible for tax purposes.

(dd) Reflects the elimination of ADAC's historical income and expenses, including administrative support services, which ceases at closing.

(ee) Represents the allocation of net loss to the non-controlling interests due to the Retained Units held by the Existing MarketWise Equityholders. The amount has been calculated as follows:

MarketWise pro forma net loss before income taxes, excluding change in fair value of warrant liabilities; *less* net loss attributable to non-controlling interest of MarketWise, LLC; *multiplied by* the Retained Units of the Existing MarketWise Equityholders of 92.1%.

As a result, for the six months ended June 30, 2021, the net loss attributable to the non-controlling interests held by the Existing MarketWise Equityholders amounts to $842.7 million. The non-controlling interest related to other entities that are included in the MarketWise, LLC amount totaled $1.1 million.

Loss per Share

	Six Months Ended June 30, 2021
(In thousands, except per share data)	
Numerator:	
Pro forma net loss	$ (69,486)
Denominator:	
Public shareholders	2,653
PIPE Investors	15,000
Initial Shareholders	7,299
Pro forma weighted average shares outstanding, basic and diluted	24,952
Pro forma basic and diluted net loss per share[(1)(2)(3)]	$ (2.78)

(1) Because basic and diluted weighted average shares outstanding are the same in a net loss position, combined pro forma net loss per share excludes 20,700,000 public warrants and 10,280,000 private placement warrants.
(2) The combined pro forma net loss per share excludes the impact of 3,051,000 Sponsor Earn Out Shares and up to 2,000,000 MarketWise Management Member Earn Out Shares, as the earnout contingency has not been met.
(3) Shares of MarketWise Class B common stock do not participate in the earnings or losses of MarketWise and, therefore, are not participating securities. As such, a separate presentation of basic and diluted earnings per share of MarketWise Class B common stock under the two-class method has not been presented.

Adjustments to the Unaudited Pro Forma Condensed Consolidated Balance Sheet

(a) Reflects the reclassification of the Trust Account to cash and cash equivalents that became available at the time of the Transactions.

(b) Reflects proceeds of $150.0 million from the issuance and sale of 15,000,000 shares of MarketWise Class A common stock in the PIPE Investment pursuant to the Subscription Agreements.

(c) Reflects the payment of transaction costs incurred by ADAC and MarketWise for legal, financial advisory, and other professional fees reflected as a decrease in additional paid-in capital.

(d) Reflects the settlement of $14.5 million in deferred underwriters' discounts.

(e) Reflects the conversion of ADAC Class B ordinary shares into MarketWise Class A common stock.

(f) Reflects the conversion of ADAC Class A ordinary shares into MarketWise Class A common stock.

(g) Reflects cash payment of $387.7 million to redeeming shareholders of ADAC Class A ordinary shares and the related reclassification of $341.9 million carrying value to additional paid-in capital.

(h) Reflects reclassification of ADAC's historical accumulated deficit.

(i) Reflects the distribution by MarketWise, LLC made to the Existing MarketWise Equityholders immediately prior to the recapitalization, in accordance with MarketWise, LLC's existing operating agreement, of all cash and cash equivalents of MarketWise, LLC as of such time.

(j) Represents the issuance of 291.1 million shares of MarketWise Class B common stock to the Existing MarketWise Equityholders with a resulting decrease in additional paid-in capital.

(k) Represents the allocation of accumulated losses of MarketWise, LLC reclassified into retained earnings.

(l) Represents the allocation of net assets to the non-controlling interests, which are primarily due to the Retained Units of the Existing MarketWise Equityholders.

(m) Represents:

1. the additional compensation expense of $292.6 million recorded in accumulated deficit and related to the acceleration of the vesting for Class B Units of MarketWise, LLC;
2. the corresponding elimination of the historical liability of $1,235.6 million; and
3. the resulting increase in additional paid-in capital (see footnote (bb) to the unaudited pro forma condensed consolidated statement of operations).

MarketWise

MarketWise Reports Financial Results for Second Quarter 2021

~ Second Quarter 2021 Revenue Increase of 71.7% Year over Year ~

~ Second Quarter Billings Increase of 50.4% Year over Year ~

~ Paid Subscribers Grew 45.5% Year-Over-Year to 1 Million ~

BALTIMORE, MD -- (BUSINESS WIRE)—MarketWise, LLC (NASDAQ: MKTW) ("MarketWise" or the "Company"), formerly known as Beacon Street Group, LLC, a leading multi-brand digital subscription services platform that provides premium financial research, software, education, and tools for self-directed investors, today reported financial results for the three and six months ended June 30, 2021.

Second Quarter 2021 Highlights(1)

- Total revenue increased by 71.7% to $142.1 million in second quarter 2021 compared to $82.8 million in second quarter 2020
- Total Billings increased by 50.4% to $185.1 million in second quarter 2021 compared to $123.1 million in second quarter 2020
- Total net loss was $8.4 million in second quarter 2021 compared to a loss of $81.0 million in second quarter 2020; the net loss this quarter was entirely driven by $47.4 million in stock-based compensation, while stock-based compensation was $78.6 million in second quarter 2020
- Cash flow from operations ("CFFO") was $58.9 million in second quarter 2021 compared to $31.6 million in second quarter 2020
- Adjusted CFFO, a non-GAAP measure, increased by 59.0% to $59.4 million in second quarter 2021 compared to $37.3 million in second quarter 2020
- Adjusted CFFO margin, a non-GAAP measure, was 32.1% in second quarter 2021 compared to 30.3% in second quarter 2020
- Deferred revenue increased by 63.7% to $707.5 million in second quarter 2021 compared to $432.2 million in second quarter 2020
- Paid Subscribers increased by 45.5% to 1.0 million in second quarter 2021 compared to 0.7 million in second quarter 2020
- Free Subscribers increased by 75.6% to 12.0 million in second quarter 2021 compared to 6.8 million in second quarter 2020

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(1) See "Key Business Metrics and Non-GAAP Financial Measures" below.

“We are very pleased with our results in the second quarter which was our second best quarter ever in both Billings and Adjusted Cash Flow from Operations. Our business continued to perform well as our subscribers continue to engage with us and explore our research products and software solutions. That resulted in significant growth in our year-over-year results,” said Mark Arnold, Chief Executive Officer of MarketWise. “When you consider that a number of our senior leaders were working on the go-public transaction, I think it makes our results even more impressive. While we are very pleased with our financial results this quarter, I would encourage our shareholders to keep the long-view in mind. We have been in business for over twenty years, have always been profitable, and treated our equity holders well. During that long history, there have been periods like this one when we were up significantly. We can’t promise our investors that things will always go up. What we can do is promise to do our best to run the business as if it were our own money at risk - because it is. This approach has served us well over the years and we have no plans to change that approach now that we are a public company.”

“Attracting, retaining and engaging the right subscribers continues to be a key focus of ours, as highlighted by the fact that our average revenue per user was $823 during the second quarter, an increase of 10.1% over the prior year period,” said Dale Lynch, Chief Financial Officer of MarketWise. “The scalable nature of our business allows us to deliver compelling and valuable content, analytics, and tools to our growing list of subscribers, while at the same time generating excellent financial returns and substantial free cash flow for our investors. We saw that clearly during the second quarter.”

Financial & Operational Results

Total revenues increased 71.7% to $142.1 million in second quarter 2021, compared to $82.8 million in second quarter 2020. The $59.3 million increase in total revenue was driven by increases in term subscription and lifetime subscription revenues of $43.4 million and $16.8 million, respectively. In particular, lifetime subscription growth and other deferred revenues from prior years continued to benefit us during second quarter 2021, contributing $81.8 million of revenue.

Total Billings for second quarter 2021 increased by 50.4% to $185.1 million compared to $123.1 million in second quarter 2020. It was primarily driven by strong lifetime and high value subscription sales, combined with strong new Paid Subscriber performance across our brands and publications. Approximately 45% of our Billings this quarter came from lifetime subscriptions, 54% from term subscriptions, and 1% from other Billings.

Total net loss for second quarter 2021 was $8.4 million compared to a $81.0 million net loss in second quarter 2020. The decrease in net loss was primarily due to an increase of revenue of $59.3 million as noted above, as well as a $31.2 million decrease attributable to stock-based compensation expense, partially offset by an increase in amortization of deferred contract acquisition costs of $10.6 million, and an increase in compensation and benefits of $8.6 million as a result of increased headcount.

Our stock-based compensation expense stemmed from certain provisions under MarketWise, LLC’s prior operating agreement and primarily relates to the value of newly vested Class B units under that agreement, profits distributions to Class B unitholders, and the change in value of previously vested Class B units. Our Class B units were classified as derivative liabilities as opposed to equity and remeasured to fair value at the end of each reporting period, with the change in value included in overall stock-based compensation expense. However, following the consummation of the transaction with Ascendant Digital Acquisition Corp. in July 2021 (the “Transaction”), MarketWise, LLC adopted a new operating agreement, and all Class B units were converted into common units of MarketWise, LLC, so all the stock based compensation associated with those Class B units being categorized as derivative liabilities will cease. Stock-based compensation going forward will be based upon any stock-based compensation associated with our new incentive award plan and is expected to be in line with stock-based compensation you may see at companies similar to MarketWise.

Total Paid Subscribers decreased by 7 thousand in second quarter 2021 as compared to first quarter 2021 and totaled 1.0 million at June 30, 2021. The slight decline in Paid Subscribers this quarter was due to a number of factors which we believe are related to the travel and leisure boom associated with the dramatic reopening of the economy. First, the cost of advertising began to increase through the second quarter as the travel and hospitality industries significantly increased their usage of digital mediums to market their products. This has tended to increase our per unit subscriber acquisition cost. Additionally, toward the end of the second quarter, we began to see what some are referring to as a "revenge travel boom," as Americans began to make up for the inability to travel for the last sixteen months. As a result, we believe it currently costs more to get the attention of prospective customers who are venturing out rather than focusing on their investments. We focus closely on our break-even metrics, and as our per unit subscriber acquisition cost increases, we will adjust and focus our marketing on existing customers, for which that cost is close to zero. We will continue to evaluate our unit acquisition costs and believe that there should be some normalization as we get into the fall.

Subscriber count churn was at the higher end of the recent historic range indicated in our previous investor slide deck. After periods of rapid growth, it is not unusual to see a modest increase in churn as some of the less engaged, new Paid Subscribers churn off. Indicative of this, almost all of the subscribers who churned in the quarter did so having owned only one entry level publication. This is evidenced by the fact that their ARPU approximately matched the subscription price of our entry level publications. The 1.0 million subscribers at June 30, 2021 represents a 45.5% increase as compared to 0.7 million Paid Subscribers at June 30, 2020.

Total Free Subscribers increased sequentially by 1.1 million in second quarter 2021. The momentum in building the Free Subscriber pool continues to be a valuable source of new Paid Subscribers. Total Free Subscribers of 12.0 million at June 30, 2021 represents a 75.6% increase as compared to 6.8 million Free Subscribers at June 30, 2020.

ARPUs were $823 in second quarter 2021, an increase of 10.1% from $748 in second quarter 2020. This growth was driven by strong ongoing high-value conversions as indicated by customers buying additional higher value content at higher price points.

Cash Flow

Net cash provided by operating activities was $58.9 million in second quarter 2021 as compared to $31.6 million in second quarter 2020, due to a significant increase in Billings.

Adjusted CFFO was $59.4 million in second quarter of 2021, compared to $37.3 million in second quarter 2020, also due to a significant increase in Billings. Adjusted CFFO as a percentage of Billings was 32.1% in second quarter 2021 as compared to 30.3% in second quarter 2020.

The following table provides a reconciliation of net cash provided by operating activities, the most directly comparable financial measure calculated in accordance with generally accepted accounting principles in the United States ("GAAP"), to Adjusted CFFO for each of the periods presented:

(In thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2021	**2020**	**2021**	**2020**
Net cash provided by operating activities	$ 58,914	$ 31,584	$ 151,218	$ 25,199
Plus: Profits distributions to Class B Unitholders included in stock-based compensation expense	456	5,757	6,107	38,070
Adjusted CFFO	59,370	37,341	157,325	63,269
Billings	185,100	123,112	440,403	240,566
Adjusted CFFO margin	32.1 %	30.3 %	35.7 %	26.3 %

For more information on Adjusted CFFO and Adjusted CFFO Margin, see "Key Business Metrics and Non-GAAP Financial Measures" below.

Conference Call Details

As previously announced, the Company will hold a conference call to discuss its second quarter 2021 results today, August 12, 2021, at 11:00 a.m. Eastern Time. The conference call can be accessed by dialing 1-877-407-4018 (domestic) or 1-201-689-8471 (international) and asking for the MarketWise Second Quarter 2021 Earnings Call. A telephonic replay will be available approximately two hours after the call and can be accessed by dialing1-844-512-2921, or for international callers 1-412-317-6671, and providing the passcode 13721861. The telephonic replay will be available until 11:59 p.m. Eastern Time on August 26, 2021.

Interested investors and other parties may also listen to a simultaneous webcast of the conference call by logging onto the investor relations section of the Company's website at investors.marketwise.com. The online replay will remain available for a limited time beginning immediately following the call.

Key Business Metrics and Non-GAAP Financial Measures

In this release we discuss certain key business metrics, which we believe provide useful information about the Company's business and the operational factors underlying the Company's financial performance. We are not aware of any uniform standards for calculating these key metrics, which may hinder comparability with other companies who may calculate similarly titled metrics in a different way.

Billings is defined as amounts invoiced to customers.

Free Subscribers are defined as unique subscribers who have subscribed to one of our many free investment publications via a valid email address and continue to remain directly opted in, excluding any Paid Subscribers who also have free subscriptions.

Paid Subscribers are defined as the total number of unique subscribers with at least one paid subscription at the end of the period.

Average revenue per user or *ARPU* is defined as the trailing four quarters of net Billings divided by the average number of quarterly total Paid Subscribers over that period.

We also discuss certain measures that are not determined in accordance with GAAP, namely Adjusted CFFO, and Adjusted CFFO Margin. We use Adjusted CFFO and Adjusted CFFO Margin to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance, and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. This non-GAAP financial information is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP and may be different from similarly titled non-GAAP measures used by other companies. A reconciliation is provided below for Adjusted CFFO and Adjusted CFFO Margin to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measure and the reconciliation of this non-GAAP financial measure to its most directly comparable GAAP financial measure.

Adjusted CFFO is defined as net cash provided by operating activities plus profits distributions to Class B unitholders included in stock-based compensation expense, plus or minus any non-recurring items.

Adjusted CFFO Margin is defined as Adjusted CFFO as a percentage of Billings.

We believe that Adjusted CFFO and Adjusted CFFO Margin are useful indicators that provide information to management and investors about ongoing operating performance, to facilitate comparison of our results to those of peer companies over multiple periods, and for internal planning and forecasting purposes. We have presented Adjusted CFFO and Adjusted CFFO Margin because we believe they provide investors with greater comparability of our operating performance without the effects of stock-based compensation expense related to holders of Class B units that will not continue following the consummation of the Transaction, because all Class B units were converted into common units of MarketWise, LLC. Going forward, we will make certain tax distributions to our members in amounts sufficient to pay individual income taxes on their respective allocation of the profits of MarketWise, LLC at then-prevailing individual income tax rates. These distributions will not be recorded on our income statement and will be reflected on our cash flow statement as cash used in financing activities. The cash used to make these distributions will not be available to us for use in the business.

Adjusted CFFO and Adjusted CFFO Margin have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as cash flow from operations. Some of the limitations of using Adjusted CFFO and Adjusted CFFO Margin are that these metrics may be calculated differently by other companies in our industry.

We expect Adjusted CFFO and Adjusted CFFO Margin to fluctuate in future periods as we invest in our business to execute our growth strategy. These activities, along with any non-recurring items as described above, may result in fluctuations in Adjusted CFFO and Adjusted CFFO Margin in future periods.

About MarketWise

Founded with a mission to level the playing field for self-directed investors, today MarketWise is a leading multi-brand subscription services platform providing premium financial research, software, education, and tools for investors.

With more than 20 years of operating history, MarketWise is currently comprised of 12 primary customer facing brands, offering more than 160 products, and serving a community of 13 million free and paid subscribers. MarketWise's products are a trusted source for high-value financial research, education, actionable investment ideas, and investment software. MarketWise is a 100% digital, direct-to-customer company offering its research across a variety of platforms including mobile, desktops, and tablets. MarketWise has a proven, agile, and scalable platform and our vision is to become the leading financial solutions platform for self-directed investors.

Cautionary Statement Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the federal securities laws, including statements regarding the financial position, business strategy, and the plans and objectives of management for future operations of MarketWise. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements are predictions, projections, and other statements about future events that are based on current expectations and assumptions and, as a result, are subject to risks and uncertainties. Many factors could cause actual future events to differ materially from the forward-looking statements in this press release, including, but not limited to: our ability to attract new subscribers and to persuade existing subscribers to renew their subscription agreements with us and to purchase additional products and services from us; our ability to adequately market our products and services, and to develop additional products and product offerings; our ability to manage our growth effectively, including through acquisitions; failure to maintain and protect our reputation for trustworthiness and independence; our ability to attract, develop, and retain capable management, editors, and other key personnel; our ability to grow market share in our existing markets or any new markets we may enter; adverse or weakened conditions in the financial sector, global financial markets, and global economy; our ability to respond to and adapt to changes in technology and consumer behavior; failure to successfully identify and integrate acquisitions, or dispose of assets and businesses; our public securities' potential liquidity and trading; the impact of the regulatory environment and complexities with compliance related to such environment; the impact of the COVID-19 pandemic; our future capital needs; our ability to maintain an effective system of internal control over financial reporting, and to address and remediate existing material weaknesses in our internal control over financial reporting; our ability to maintain and protect our intellectual property; and other factors beyond our control.

The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties described in the "Risk Factors" section of our Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, the registration statement on Form S-4 and proxy statement/prospectus filed with the U.S. Securities and Exchange Commission (the "SEC") and other documents filed by us from time to time with the SEC.

These filings identify and address other important risks and uncertainties that could cause actual events and results to differ materially from those contained in the forward-looking statements. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this press release may not occur and actual results could differ materially and adversely from those anticipated.

Forward-looking statements speak only as of the date they are made. Readers are cautioned not to put undue reliance on forward-looking statements, and we assume no obligation and do not intend to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. We do not give any assurance that we will achieve our expectations.

Income Statement

(Unaudited, in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net revenue	$ 141,884	$ 81,905	$ 261,225	$ 157,739
Related party revenue	246	890	619	1,438
Total net revenue	142,130	82,795	261,844	159,177
Operating expenses:				
Cost of revenue(1)(2)	26,826	27,477	159,638	42,158
Sales and marketing(1)(2)	56,926	49,241	148,711	89,573
General and administrative(1)(2)	64,661	84,498	572,090	120,951
Research and development(1)(2)	1,927	1,190	3,705	2,217
Depreciation and amortization	696	662	1,447	1,273
Related party expense	27	(17)	47	32
Total operating expenses	151,063	163,051	885,638	256,204
Loss from operations	(8,933)	(80,256)	(623,794)	(97,027)
Other (expense) income, net	530	(1,067)	303	(863)
Interest income, net	7	367	12	472
Net loss	(8,396)	(80,956)	(623,479)	(97,418)
Net loss attributable to non-controlling interests	(501)	(911)	(1,131)	(872)
Net loss attributable to MarketWise	$ (7,895)	$ (80,045)	$ (622,348)	$ (96,546)

(1) Included within cost of revenue, sales and marketing, and general and administrative expenses are stock-based compensation expenses as follows:

(Unaudited, in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Vested Class B Units and change in fair value of Class B liability awards	$ 46,989	$ 72,870	$ 642,413	$ 61,054
Profits distributions to holders of Class B Units	456	5,757	6,107	38,070
Total stock-based compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

(2) Stock-based compensation expenses by line item:

(Unaudited, in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Cost of revenue	$ 10,568	$ 15,058	$ 124,916	$ 18,226
Sales and marketing	840	1,022	14,910	2,225
General and administrative	36,037	62,547	508,694	78,673
Total stock-based compensation expense	$ 47,445	$ 78,627	$ 648,520	$ 99,124

Note: Our stock-based compensation expense stemmed from certain provisions of MarketWise, LLC's prior operating agreement and primarily relates to the value of newly vested Class B units under that agreement, profits distributions to Class B unitholders, and the change in value of previously vested Class B units. Our Class B units were classified as derivative liabilities as opposed to equity and remeasured to fair value at the end of each reporting period, with the change in value included in overall stock-based compensation expense. However, following the consummation of the Transaction, MarketWise, LLC adopted a new operating agreement and all Class B units were converted into common units of MarketWise, LLC, so all the stock-based compensation associated with those Class B units being categorized as derivative liabilities will cease. Stock-based compensation going forward will be based upon any stock-based compensation associated with our new incentive award plan and is expected to be in line with stock-based compensation that \may be seen at companies similar to MarketWise.

Balance sheet

(Unaudited, in thousands)	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 241,532	$ 114,422
Accounts receivable	8,965	12,398
Prepaid expenses	7,911	8,530
Related party receivables	775	874
Related party notes receivable, current	292	—
Restricted cash	500	505
Deferred contract acquisition costs	68,548	42,019
Other current assets	2,087	1,889
Total current assets	330,610	180,637
Property and equipment, net	1,300	1,417
Operating lease right-of-use assets	11,826	12,337
Intangible assets, net	9,496	5,278
Goodwill	23,338	18,101
Deferred contract acquisition costs, noncurrent	113,029	65,217
Related party notes receivable, noncurrent	861	1,148
Other assets	715	678
Total assets	$ 491,175	$ 284,813
Liabilities and members' deficit		
Current liabilities:		
Trade and other payables	$ 4,718	$ 11,969
Related party payables, net	1,231	2,515
Accrued expenses	65,258	32,134
Deferred revenue and other contract liabilities	324,675	278,267
Derivative liabilities	662	—
Operating lease liabilities	1,223	1,077
Other current liabilities	24,805	19,576
Total current liabilities	422,572	345,538
Class B Units - related party	1,235,648	593,235
Deferred revenue and other contract liabilities, noncurrent	382,797	254,481
Derivative liabilities, noncurrent	1,955	4,343
Operating lease liabilities, noncurrent	7,512	7,826
Total liabilities	2,050,484	1,205,423
Commitments and Contingencies	—	—
Members' deficit:		
Class A members' units, 528,519 and 547,466 units issued and outstanding at June 30, 2021 and December 31, 2020, respectively	(1,552,174)	(914,728)
Accumulated other comprehensive income (loss)	(118)	(17)
Total members' deficit	(1,552,292)	(914,745)
Non-controlling interest	(7,017)	(5,865)
Total members' deficit attributable to MarketWise	(1,559,309)	(920,610)
Total liabilities, non-controlling interest, and members' deficit	$ 491,175	$ 284,813

Cash flows

(Unaudited, in thousands)	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	$ (623,479)	$ (97,418)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,447	1,273
Stock-based compensation	43,880	11,258
Change in fair value of derivative liabilities – Class B Units	598,533	49,796
Change in fair value of derivative liabilities – other	(1,726)	997
Unrealized losses on foreign currency	(79)	29
Noncash lease expense	908	1,481
Gain on sale of cryptocurrencies	(105)	—
Changes in operating assets and liabilities:		
Accounts receivable	3,433	(614)
Related party receivables and payables, net	(1,185)	(5,151)
Prepaid expenses	619	(595)
Other current assets and other assets	(83)	(384)
Cryptocurrency intangible assets	109	31
Deferred contract acquisition costs	(74,341)	(22,091)
Trade and other payables	(7,172)	3,403
Accrued expenses	32,946	654
Deferred revenue	172,849	78,266
Operating lease liabilities	(565)	(1,333)
Other current and long-term liabilities	5,229	5,597
Net cash provided by (used in) operating activities	151,218	25,199
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(7,139)	—
Acquisition of non-controlling interests, including transaction costs	—	(9,164)
Purchases of property and equipment	(62)	(214)
Purchases of intangible assets	(857)	—
Capitalized software development costs	(20)	—
Net cash used in investing activities	(8,078)	(9,378)
Cash flows from financing activities:		
Principal payments on long-term debt – related party	—	(5,390)
Issuance of related party notes receivable	(292)	(1,437)
Proceeds from related party notes receivable	287	5,446
Distributions to members	(15,098)	(66,145)
Distributions to noncontrolling interests	(831)	(423)
Net cash used in financing activities	(15,934)	(67,949)
Effect of exchange rate changes on cash	(101)	27
Net increase in cash, cash equivalents and restricted cash	127,105	(52,101)
Cash, cash equivalents and restricted cash — beginning of period	114,927	172,084
Cash, cash equivalents and restricted cash — end of period	$ 242,032	$ 119,983

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